

# THE OECD TAX-BENEFIT MODEL FOR CROATIA

Description of policy rules for 2018



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## Preface

The [OECD Tax-Benefit model \(TaxBEN\)](#) incorporates detailed policy rules for tax liabilities and benefit entitlements as they apply to individual families across OECD member countries. Its main use is to calculate the amount of taxes that people are liable to pay, and the government transfers they are likely to receive, in different family and labour-market situations. The model includes legal policy rules that are relevant for people of **working age** (from 18 years old until the statutory retirement age) and their dependent children. Income tax liabilities and benefit entitlements are calculated for a broad set of *stylised* families (“vignettes”, e.g. a married couple of 40 years old adults with two children aged 4 and 6 respectively). Model users are free to change many of these characteristics, including the age and number of children, activity status of adult members, hours of work, current and past earnings levels, unemployment duration, social contribution records, and housing-related costs. The model has been updated annually since the early 2000s for most OECD countries.

TaxBEN’s policy scope includes the main taxes on employment income (earnings), social contributions paid by individuals and by employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits and support for non-parental childcare are included for a sub-set of countries and years. The most important policy areas that are outside the scope of the model include taxes on wealth (e.g. taxes on immovable and unmovable properties, including local taxes), indirect taxes (e.g. VAT), early-retirement benefits, sickness benefits and in-kind transfers (e.g. free school meals, subsidised transport and free health care).

This report describes the taxes and benefits that are included in the model and focuses on the rules that are relevant for family, individual and labour-market circumstances that are within its scope. The **Annex** provides information on other cash benefits and taxes on employment incomes that can be relevant for some members of the working-age population, but which are not included in the TaxBEN model.

### Reading notes and further details on the scope and content of this report

- The **reference date** for policy rules described in this report is **January 1, 2018**.
- **Guidelines for completing and updating this report** are provided [here](#).
- Further information on the model, model results, and references to reports and analytical uses is available on the [project website](#). A [methodology](#) document provides a full description of the assumptions underlying the model as well as the model choices that users can make. The symbol  in the text provides a link to a glossary of technical terms.
- Section titles provide the names of taxes and benefits as they are known in the country: first, direct translation into English, then (in brackets) the name in the national language.
- In order to facilitate transparency between the policy descriptions and the associated code in the model, the **variable names** are indicated in the text in square brackets using the following format: **[variable name]**, for instance: **[AW]** for the average wage.

## The OECD tax-benefit model for Croatia: Policy rules in 2018

### 1. Reference wages

The national currency of Croatia is the Croatian kuna (HRK).

In period from January to December 2018 in Croatia average monthly gross earnings for activities B-N (by NACE Rev. 2) [AW] amounted to HRK 7 831 (annual value HRK 93 969). This is a provisional estimate.

The minimum wage [MIN] in 2018 is HRK 3 439,80 per month. The annual minimum wage is computed by multiplying the minimum monthly wage by 12, i.e. HRK 3 439.80 \* 12 = HRK 41 277.6.

### 2. Unemployment benefits

#### 2.1. Unemployment cash benefit (*Novčana naknada za vrijeme nezaposlenosti*)

Variable names: [UI\_p; UI\_s]

This is an unemployment insurance benefit. It is contributory, not means-tested and not taxable. 

##### 2.1.1. Eligibility conditions

**Age:** Person is 15-65 years old.

**Contribution/employment history:** The right to unemployment benefit is granted to an unemployed person who has performed a job for at least 9 months in the period of 24 months before termination of employment. Besides work period, following periods also account as insurance time: time spent on sick leave or maternity, parental, adoptive or custodial leave after the termination of employment or service, if a worker received a salary compensation during a leave.

**Behavioural requirements and related eligibility conditions:**  The most important conditions for unemployed person to obtain unemployment benefit are following:

- involuntary unemployment (i.e. through no fault of their own or against his/her own will),
- fulfilment of a minimum period of insurance,
- registration at the Croatian Employment Service,
- application for benefit within 30 days of the termination of employment,
- capable of work,
- actively seeking employment.

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TaxBEN assumes that these compulsory conditions are satisfied when simulating unemployment benefits.<sup>1</sup>

### 2.1.2. *Benefit amount*

**Calculation base:** The basis for determination of the unemployment benefit amount is beneficiary's average gross salary acquired in a three-month period preceding the termination of employment. Since March 2017 the base is not reduced for compulsory pension insurance.

**Benefit amount:** The unemployment benefit for the first 90 calendar days amounts to 60% of prescribed basis while for the remaining time it decreases to 30% of the basis.

The maximum amount of unemployment benefit for the first 90 days cannot be higher than 70%, and for the remaining time cannot be higher than 35% of the average net salary paid in the Croatian economy in the previous year, according to the latest officially published data. The average monthly net salary paid in the Croatian economy in 2017 was 5 985 kuna.

The minimum amount of the benefit cannot be lower than 50% of the minimum salary (gross) decreased by contributions for compulsory pension insurance (1 375,92 kuna), except in the case where the amount of benefit is determined according to the percentage of time spent at work. Minimum salary in 2018 was set at 3 439,80 kuna (gross).

### 2.1.3. *Benefit duration*

Unemployment cash benefit is granted to the unemployed person for a period that depends on the previous period of employment, namely:

- 90 days if the person has spent 9 months to 2 years at work
- 120 days if the person has spent more than 2 years at work
- 150 days if the person has spent more than 3 years at work
- 180 days if the person has spent more than 4 years at work
- 210 days if the person has spent more than 5 years at work
- 240 days if the person has spent more than 6 years at work
- 270 days if the person has spent more than 7 years at work
- 300 days if the person has spent more than 8 years at work
- 330 days if the person has spent more than 9 years at work
- 360 days if the person has spent more than 10 years at work
- 390 days if the person has spent more than 15 years at work
- 420 days if the person has spent more than 20 years at work
- 450 days if the person has spent more than 25 years at work

An unemployed person who spent more than 32 years working and needs maximum of 5 years to fulfil the age limit for old-age pension shall be entitled to unemployment benefit until reemployment or until the occurrence of other circumstances which cause the termination of the right to this benefit. The statutory age limit for old-age pension for men

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<sup>1</sup> Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion reports, see Immervoll and Knotz (2018, forthcoming), [Langenbucher \(2015\)](#) and [Venn \(2011\)](#).

is 65 years. For women the age limit is increasing by 3 months each year until it reaches 65 years. In 2018, the age limit for women is 62 years.

The right to cash benefit can be re-applied in case of obtaining new insurance period of at least 9 months in last 24 months.

#### 2.1.4. Means test

The benefit is not means-tested.

#### 2.1.5. Tax treatment

The benefit is not taxable.

#### 2.1.6. Interactions with other components of the tax-benefit system

Person cannot simultaneously receive unemployment cash benefit and: other benefits related to unemployment; benefits paid during maternity and parental leaves; up-to employment benefit and parent caregiver benefit; other benefits if a benefit amount is higher than unemployment benefit (if an amount of other benefit is lower than unemployment benefit, then person receives the difference between two amounts).

It is also not possible to receive unemployment benefit if a person is a pension beneficiary, except pension beneficiary of disability pension due to occupational disability to work, disability pension for partial inability to work and beneficiary of survivors pension who doesn't receive this pension at the moment.

Unemployed person who, while receiving unemployment benefit, acquired the right for a disability pension due to occupational incapacity to work in the amount below the amount of unemployment benefit, is entitled to the difference between disability pension and the unemployment benefit initially determined for him.

Unemployment benefit is regarded as income that influences granting the child allowance, guaranteed minimum benefit and assistance in settling of housing and heating costs.

#### 2.1.7. Combining benefit receipt and employment/starting a new job

A beneficiary temporary cannot acquire the right to unemployment benefit, if he acquires a monthly income from performing services according to special regulations (like temporary service contract) or other income according to regulations on Income Act (various types of income like scholarships, royalties and other) in an amount higher than average unemployment benefit paid in previous year (1 817 kuna). If a beneficiary has earned that type of income but lower than the average unemployment benefit, he continues to receive the benefit without interruptions. If a beneficiary establishes work relations (regular employment with salary), the right ceases.

In the model it is assumed that if a person starts a job it is regular employment. So it is not possible to combine receipt of unemployment benefit and income from employment.

### 3. Social assistance and housing benefits

#### 3.1. Guaranteed minimum benefit (*Zajamčena minimalna naknada*)

Variable name: **[SA]**

This is a non-contributory benefit, means-tested and not taxable.

### *3.1.1. Eligibility conditions*

Guaranteed minimum benefit is intended to secure basic needs of a person or a household that has no means to provide for themselves (in the amount of benefit) and can't acquire them through their work, property income or from persons obliged to support them.

Person's income and property is subjected to means test before exercising this right.

If a person is capable for work he or she should be registered as unemployed at Croatian Employment Service. This rule doesn't apply to:

- person who misses five years for acquiring old age pension,
- child who is at least 15 years old while attending school regularly and younger adult until the end of the regular education but not older than 29,
- pregnant woman or woman that gave birth in a period of 6 month after birth,
- parent who raises and takes care of a child till it reaches one year of age, or twins till they reach three years of age, three or more children till they reach ten years of age and parent who uses adoption leave,
- person completely incapable for work,
- person for whom temporary unemployability has been established,
- unemployed member of a household without income who provides care for a child or provides care for adult family member incapable to take care of himself, if such care provision replaces institutional care,
- unemployed member of a household who provides care for a child of pre-school age when it is not possible to secure such care provision through third party or in educational institutions

If a beneficiary of guaranteed minimum benefit, who is capable or partially capable for work, declines a job offer or vocational training, cancels an employment contract in his own free will or refuses to participate in work for common good without compensation, than he loses the right to this benefit. This rule doesn't apply to categories described in points above.

If guaranteed minimum benefit is granted to a household, the amount of benefit is reduced for a share of a household member that doesn't satisfy the conditions for receiving the benefit.

TaxBEN assumes that these compulsory conditions are satisfied when simulating guaranteed minimum benefit.

### *3.1.2. Benefit amount*

The basis for determining the amount of the benefit is 800 kuna per month. The benefit is calculated as the percentage of the base:

- for a single person:
  - incapable for work - 115%
  - capable for work - 100%
- for a person within a household:
  - lone parent - 100%
  - adult member of a household - 60%
  - child - 40%

- child of a lone parent – 55%

Amount of the benefit granted to a household cannot be higher than the gross amount of minimum wage (3 439,80 kuna/month).

### 3.1.3. *Benefit duration*

Period for which the guaranteed minimum benefit is acknowledged is not limited for a beneficiary that fulfils all prescribed conditions.

### 3.1.4. *Means test*

If a person or a household member receives income, the amount of a guaranteed minimum benefit corresponds to the difference between the prescribed amount of benefit for a person/household without income and average monthly income of a person or a household achieved in a period of 3 months, preceding the month in which the application was initiated in order to achieve the benefit.

Income includes all financial resources which single person or a household member achieves at home or abroad on the basis of work, pension, property income or otherwise (for example, income from share in capital, interests from savings etc.) in accordance with regulations of income tax, reduced by social insurance contributions that represent financial burden of a taxpayer, tax and surtax.

Income doesn't include many sources of income which are elements of the social protection system: assistance in settling of housing and heating costs; financial compensation for physical impairment; assistance and care supplement and personal disability benefit; child allowance; aid granted by state for agriculture, rural development, fishing and aquaculture; scholarships for pupils and students during regular schooling; compensation for accommodation in a foster family; means for covering losses that came as a consequence of natural disasters; temporary child support; child support (alimony) but to the amount of temporary child support; cash allowance and compensation of travel expenses during professional development without conceiving employment and during vocational training; supports for a new-born baby granted by local/regional self-government unit and other.

The right also cannot be granted to a person who:

- owns a house or apartment, beside house or apartment where he resides, that can be sold or rented to secure the means for settling basic needs, as well if the person owns office space that isn't used for registered business activity or if he owns valuable movable property;
- owns a property which can be used or sold without endangering basic needs and thus secure the means in the amount of guaranteed minimum benefit;
- owns a registered personal vehicle, except the vehicle which is used for transportation of a household member - user of a right based on a personal disability, as well for transportation of elderly and feeble persons with moving difficulties, or in a case the welfare centre determines that the vehicle is necessary because of isolated location;
- uses a registered personal vehicle owned by other person or legal entity;
- signed the lifelong support contract or contract for support until death, as recipient of support;

- can acquire support on other grounds
- is a user of social service of accommodation or organized occupancy

In the model it is assumed that the above conditions do not hold.

### 3.1.5. Tax treatment

The benefit is not taxable.

### 3.1.6. Interaction with other components of the tax-benefit system

Full amount of guaranteed minimum benefit can be combined with: assistance in settling of housing and heating costs; child allowance; and other benefits described in 3.2.4.

Regarding other benefits that are not mentioned in “income disregards”, beneficiaries of those benefits are entitled to guaranteed minimum benefit only if those benefits along with other eventual income are in an amount lower than guaranteed minimum benefit, and in that case a beneficiary receives a difference between full amount of guaranteed minimum benefit and amount of other benefit.

### 3.1.7. Combining benefit receipt and employment/starting a new job

If a person or a household member, who is capable for work or partially capable, and is a beneficiary of the guaranteed minimum benefit for at least 1 year, becomes employed, then in the first 3 months of his employment this right does not cease and in the first month benefit is not decreased for earned income. In the second month the pre-employment amount of the benefit decreases by 25%, and in the third month by 50%. The right ceases if this person or a household member is employed longer than three months and his average income is higher than the amount of guaranteed minimum benefit.

This rule is not included in the model.

## 3.2. Assistance in settling of housing costs (*Naknada za troškove stanovanja*)

Variable name: **[HB]**

This is a non-contributory benefit, means-tested and not taxable.

Housing costs encompass rent, utility costs, electricity, gas, heating, water supply, drainage and other housing costs, in accordance with special regulations.

### 3.2.1. Eligibility conditions

Right to assistance in settling of housing costs is granted to a person or a household who are beneficiaries of the guaranteed minimum benefit.

### 3.2.2. Benefit amount

The benefit is financed and implemented by the local self-government unit, on monthly basis. The amount of the benefits is up to half of the maximum amount of guaranteed minimum benefit (granted to a household or to a single person). Amount of benefit also depends on financial abilities of local self-government units regarding their budgets.

In the model the amount of the benefit is approximated as half of the guaranteed minimum benefit received by the family. Assistance in settling of housing costs can be

granted in cash directly to a beneficiary or the authority can pay the receipt directly to the authorized legal or natural person who provides the service.

### 3.2.3. *Benefit duration*

As long as guaranteed minimum benefit is received.

### 3.2.4. *Means test*

The same as for guaranteed minimum benefit.

### 3.2.5. *Tax treatment*

The benefit is not taxable.

### 3.2.6. *Interaction with other components of the tax-benefit system*

The same as for guaranteed minimum benefit. Assistance in settling of housing costs can be received in full together with guaranteed minimum benefit.

### 3.2.7. *Combining benefit receipt and employment/starting a new job*

The benefit can be received together with employment as long as a person/household is eligible to guaranteed minimum benefit.

## 4. Family benefits

### 4.1. *Child allowance (Doplatak za djecu)*

Variable name: **[FB]**

This is a non-contributory benefit, it is means-tested and not taxable.

#### 4.1.1. *Eligibility conditions*

Child allowance is given to a parent or other designated person for support and upbringing of a child. Child allowance is given until child reaches 15<sup>th</sup> year of age, or until the end of the school year in which child turned 15. Child allowance is given for a child in high school until the end of such schooling, but no longer than the end of the school year in which child turns 19 years of age.

#### 4.1.2. *Benefit amount*

The amount of the benefit depends on the total income per household member (see 4.1.4. for precise definition) and budgetary basis (equal to 3326 kuna in 2018):

- If total income per household member does not exceed 16.33% of the budgetary basis per month, the child allowance is 9% of the budgetary basis per child.
- If it ranges between 16.34% and 33.66% of the budgetary basis per month, the child allowance is 7.5% of the budgetary basis per child.
- If it ranges between 33.67% and 50% of the budgetary basis per month, the child allowance is 6% of the budget basis per child.

The amount of the allowance increases by 15% for the child without one of the parents, as well as if one of the parents is unknown or of unknown residence, completely and

permanently incapable to live and work independently, or deprived of the business capability.

The amount of the allowance increases by 25% for the child without both parents, as well as if both parents are unknown or of unknown residence, if they are completely and permanently incapable to live and work independently, or if they are deprived of the business capability.

For a child with health impairments, allowance also increases by 25%.

For a child with more serious or severe disability, allowance is determined in the amount of 25% of the budgetary basis, regardless of the total monthly income per household member.

Alongside determined amount of the child allowances, beneficiary (who acquired basic benefit) is provided with a supplement in the amount of 500 kuna for the third and fourth child.

#### *4.1.3. Benefit duration*

As long as the eligibility conditions and the means-test are satisfied.

#### *4.1.4. Means test*

Eligibility for this benefit and the amount of the child allowance is determined according to the monthly amount of total achieved income of a household per household member, generated in the year previous to one when application for the benefit has been submitted. Although child allowance is given depending on the income generated in previous year, beneficiaries can report any changes, in current year, regarding income or other circumstances that can influence the acknowledgment of this benefit and if according to changed circumstances, benefit can be granted, person will start receiving it from the first day of the next month. In the model the simulation is based on current income.

The total household income is the sum of taxable incomes which fall under the regulations on income tax and other receipts such as pensions achieved at home and abroad, salaries granted by employer for the work abroad, benefits granted due to the child care, sick leave benefit, unemployment benefits and compensation for professional rehabilitation. The term total income of a household refers to the sum of taxable incomes and other receipts reduced for compulsory contributions from receipts, tax and surtax.

Total income of a household per household member per month does not exceed 50% of the budgetary basis.

#### *4.1.5. Tax treatment*

Child allowance is not subjected to taxation.

#### *4.1.6. Interaction with other components of the tax-benefit system*

Other social benefits that are not part of the means-test (see 4.1.4. have no influence on the child allowance. Child allowance can be combined with the full amount of: guaranteed minimum benefit and consequently with assistance in settling of housing and heating costs as well as with personal disability benefit.

#### 4.1.7. *Combining benefit receipt and employment/starting a new job*

There are no special rules for people starting a new job. Employment income is included in the means-test.

## 5. **Childcare for pre-school children**

The **reference date** for the policy rules described in this section is **January 1, 2018**.

Pre-school education includes programs of education, health care, nutrition and social welfare that are provided in kindergartens. Pre-school education is organized and conducted for children from the age of six months up to school age. Generally, children start attending elementary school in a calendar year when they have reached six years of age before 1. April.

Preschool programme (it shouldn't be mixed with the term - preschool education) is compulsory for all children in a period of one year before attending primary school. For children who attend kindergarten, preschool programme is already integrated in regular programme of preschool educations of kindergarten, other children have to attend preschool program in nearest kindergarten, or primary school closest to their place of residence, that conduct preschool program for children who don't attend the kindergarten. Preschool programme is state co-financed, and it is free of charge for parents. It is not a full day programme.

### 5.1. *Gross childcare fees*

Variable name: [\[HRcc\\_cost\]](#)

Kindergartens founded by the units of local and regional self-government, are charging their services from the parents-customers, in accordance with the standards established by the representative body of that unit, except for the compulsory pre-school program (for children in a period of one year before attending primary school), that is free of charge for parents. Therefore, it depends on the units of local or regional self-government, whether, and to what extent, it will co-finance the kindergarten costs, and thereby reduce the cost for parents. Likewise, it depends on the local or regional self-government units whether the co-financing (and its amount) will be based on the previous means test, as well as whether there will be a category of users who are excluded from paying the participation in costs.

In the City of Zagreb, contribution of parents in a price of a preschool program is determined according to the type of program, duration of program and financial status of a family (based on average monthly income per member of a household, achieved in previous year):

INCOME CENSUS (CITY OF ZAGREB) (average monthly income per member of a household achieved in previous year)	MONTHLY AMOUNT OF CONTRIBUTIONS OF PARENTS IN A PRICE OF REGULAR PROGRAMME	
	10 HOUR	HALF-DAY
over 4.501,00 kn	600,00 kn	390,00 kn
over 3.501,00 up to 4.500,00 kn	450,00 kn	292,50 kn
over 2.501,00 up to 3.500,00 kn	300,00 kn	195,00 kn
up to 2.500,00 kn	150,00 kn	97,50 kn

Income is defined as salary, compensation of salary and other income of every employed or self-employed member of the household, pension, compensation for sick leave, maternity and parental supports, unemployment benefit, compensation paid according to a temporary service contract, other taxable incomes. Income is reduced for: tax/surtax, instalments for housing loan (if the loan is taken for solving housing status of a family), amount that family pays for freely agreed rent in order to solve the housing status.

The economic price of regular kindergarten program, anticipated on the ground of average costs of program, was set for 2018 in the amount of 1 900 kuna for the 10 hour program and 1 300 kuna for the half day program.

#### *5.1.1. Discounts for part-time usage (not modelled)*

If a child stays in an institution for only part of the day, the fee that parents have to pay is lower (see table in the previous section).

#### *5.2. Fee discounts and free provision*

Additional reliefs in paying the costs of regular programs in kindergartens and other legal entities founded by the city of Zagreb are acknowledged for a:

- child of a parent with 100% or 90% level of disability - entirely relieved of paying the charge of program,
- child of a parent with 80% to 60% level of disability – parents pay 50% of the contribution described in the table above,
- child of a parent with 50% level of disability or less – parents pay 75% of the contribution described in table above,
- in a case that two children of the same family attend the regular program, parents pay the whole contribution for one child and 75% of the contribution for the other child,
- for families with three or more children that are attending regular program, parents are entirely relieved of paying for the third and every child that follows,
- For a child of a lone parent, charge is 75% of the price of contribution,
- For a child whose parents receive constant cash assistance within the social welfare system, parents pay 20% of the price.

Parents can use just one relief that is the most favorable for them.

#### *5.3. Child-care benefits for formal centre-based care*

Variable name: [\[cc\\_benefit\]](#)

Financing of kindergartens from state and other entities is provided in the form of services so benefit amount would be a part of the price of service that parents don't have to settle. Also, this service is provided on the local level and each local unit prescribes conditions for financing kindergartens separately. In the city of Zagreb, benefit would be

equal to a difference between the economic price of a kindergarten program and a participation in the price that parents have to settle. This, however, is not considered in the model.

#### **5.4. Child care allowance for children not using child care centers**

##### ***Subsidy for stay-at-home parent (Novčana pomoć za roditelja odgojitelja)***

Variable name: `[HomeCare_p, HomeCare_s]`

In September 2016, the City of Zagreb has introduced a new benefit within its social system for helping with the costs of raising children.

##### **5.4.1. Eligibility**

The subsidy for stay-at-home parent is granted to a non-employed parent (i.e. to a parent without regular employment) who provides care for at least three children and the youngest child still doesn't attend primary school (in the model defined as below 6 years old). During the usage of this right, children cannot attend kindergarten except for compulsory preschool programme in a period of one year before attending primary school. Right to this benefit ceases when the youngest child in a family reaches 15 years of age. If both partners are non-employed, in the model we assume that the spouse applies to this benefit.

##### **5.4.2. Benefit amount**

Gross amount of benefit is equal to average monthly net salary in the Republic of Croatia according to the last published data on salaries immediately before exercising this right (in 2017 it was 5 985 kuna). Benefit is subjected to payment of social contributions, tax and surtax as other income according to Income Tax Act and Contributions Act.

Social contributions for health insurance are paid on the gross benefit by the City of Zagreb (rate of 7.5%\*gross) and do not burden the beneficiary (these contributions are not simulated), while pension contributions (rate of 10%\*gross) burden the beneficiary and reduce the gross benefit.

##### **5.4.3. Benefit duration**

The benefit is paid as long as the eligibility conditions hold.

##### **5.4.4. Means test**

Benefit is not subjected to means test.

##### **5.4.5. Tax treatment**

Amount of tax paid in advance (monthly) is calculated in a following manner:

Before applying tax rates, gross amount of benefit is reduced for the amount of social contribution for pension insurance (10% of the gross). Tax rate of 24% is then applied on the amount left and surtax rate of 18% (surtax rate in City of Zagreb) on the amount of tax. When pension contributions, tax and surtax are reduced from the gross, the amount left is the net benefit. According to Income Tax Act, this benefit is regarded as other income which is treated somewhat different than salary, regarding taxation. In amounts of taxes paid in advance (monthly), taxpayer cannot use tax allowances but in annual tax

application all tax allowances are taken in regard. Since this benefit is granted to unemployed persons, beneficiary's income for whole year will be equal to the annual amount of benefit which means that only tax rate of 24% will be applied in annual tax calculation (in some cases, when other income, income from dependent labour and self-employment form an annual tax base, rate of 36% can also be applied on other income in annual tax calculation). In the model we simulate the final tax paid.

#### 5.4.6. *Interaction with other benefits*

Subsidy for stay-at-home parent is included in the means-test for guaranteed minimum income and child allowance. It can't be received together with unemployment benefit. If a person is eligible for both, stay-at-home subsidy will be paid as more generous.

#### 5.4.7. *Combining benefit receipt and employment/starting a new job*

It is not possible to combine the receipt of this benefit with employment.

#### 5.5. *Tax concessions for childcare expenditures*

There are no tax concessions for childcare expenditure in Croatia.

## 6. Social security contributions and payroll taxes

### 6.1. *Social security contributions (Socijalni doprinosi)*

Variable names: `[SOCSEC_p; SOCSEC_s; SSCR_p; SSCR_s]`

Social security contributions are calculated for receipts from employment that are liable to taxation by income tax.

**Contributions payable by employees:** Contributions from salary (gross) - pension insurance contributions – rate of 20.0% (15% for the first pillar pension insurance and 5% for the second pillar) is applied to the gross salary. This amount burdens an employee and reduces the gross salary.

**Contributions payable by employers include:**

- Health insurance contribution –15.0%
- Contribution for health protection at work (for the case of injury at a workplace or occupational disease) –0.5%
- Employment contribution (insurance for the period of unemployment) –1.7%.

These rates are applied on the gross salary, they burden the employers and do not reduce the gross salary.

Since 2015 employers are relieved from paying health insurance contributions and employment contributions in case of employment of younger person up to 30 years of age, if a job contract was closed for continuous period and for the first time with that person.

## 7. Taxes

Taxation in Croatia is on the individual level.

Income tax is calculated and paid, as a rule, once a year (annual tax application). This amount is deducted by the tax amount that employees pay in advance, generally on a monthly basis. New Income Tax Act entered into force on 1 January 2017.

Majority of social security benefits in Croatia are not taxed (either being left outside the definition of income, or falling into this definition, but treated as non-taxable). Some exemptions are subsidy for stay-at-home parent, compensation of salary during sick leave paid by the employer for the first 43 days of the sick leave and pensions above certain amount. Subsidy for stay-at-home parent is treated as other income (for detailed information on taxation of this benefit please see section 5.4.5. ), while sick-leave benefit paid by the employer and pensions are treated as a financial receipt from the dependent labour and form a part of income tax base.

### 7.1. *Income tax (Porez na dohodak)*

Variable name: `[INCTAX_p; INCTAX_s]`

#### 7.1.1. *Tax allowances*

**General allowance:** 45 600 kuna per year (3 800 kuna per month) in 2018 for all resident taxpayers. Additional allowances can be granted to residents of certain underdeveloped areas (not simulated).

#### **Family allowance:**

Basis for calculation of tax allowances is equal to 2 500 kuna per month (30 000 kuna per year).

- If a taxpayer provides support to a member of immediate family, or if he has an obligation to pay the alimony to a former spouse, than the additional allowance is granted to him in the annual amount of 21 000 kuna (coefficient 0,7\*basis).
- An additional allowance of 21 000 kuna is given for the first dependent child (coefficient 0,7\*basis). For each subsequent child, tax allowance are: 30 000 kuna (coefficient 1) for the second child; 42 000 kuna (coefficient 1,4) for the third child; 57 000 kuna (coefficient 1,9) for the fourth child; 75 000 kuna (coefficient 2,5) for the fifth child; 96 000 kuna (coefficient 3,2) for the sixth child; 120 000 kuna (coefficient 4) for the seventh child; 147 000 kuna (coefficient 4,9) for the eighth child; 177 000 kuna (coefficient 5,9) for the ninth child. For tenth and each subsequent dependent child, coefficient of additional allowance is increased progressively by 1,1.

In a case when more persons (usually parents) support one or more members of immediate family, then tax deductions are assorted evenly, if the parents don't agree otherwise. Parents also can agree to split allowances in a different way, e.g. one takes x% and other 100-x%.

Immediate family members (taxpayer's spouse or a life partner, taxpayer's parent, etc.) and children are treated as dependents if their annual taxable receipts, receipts which are not subject to taxation and other receipts that are not considered as income, do not exceed 15 000 kuna. Exceptionally, when determining the right to personal tax deduction for dependent immediate family members and dependent children, following receipts are not taken into consideration: social assistance benefits, child allowance, monthly supports for

a new-born child below prescribed amount, receipts for equipment of a new-born child, survivors pensions acquired after a death of a parent, receipts that represent amounts for support from parents or other immediate family members donations for health treatments up to prescribed amount and reimbursement of travel expenditures related to work up to prescribed amount.

Dependent children are children to whom parents, guardians, adoptive parents and foster parents provide support. Children that have finished regular schooling are also treated as dependents till their first regular employment.

Tax allowances can be used for income that derives from dependent labour (employment, pension), self-employment activities and other income (various other receipts according to Income Tax Act). General and family allowances are not applied on income that derives from property, property rights, insurance and investments.

**Other allowances:** Contributions for compulsory pension insurance.

### 7.1.2. Tax base

Tax base for the income derived from employment is determined in the manner that tax payer's expenditures and tax allowances are deduced from receipts. Contributions for compulsory pension insurance are recognized as an expenditure for the income that derived from employment.

### 7.1.3. Income tax schedule

Tax schedule for 2018 is:

Tax base (monthly)	Rate
up to 17 500 kuna	24%
above 17 500 kuna	36%

### 7.1.4. Tax credits

There are no tax credits in Croatia.

## 7.2. Surtax (*Priraz*)

Variable names: `[SURTAX_p; SURTAX_s]`

Towns and municipalities can prescribe surtax to all taxpayers of income tax on their area applying the following rates:

- Municipality – up to 10%
- Towns with population not higher than 30 000 – up to 12%
- Towns with population higher than 30 000 – up to 15%
- City of Zagreb up to 18% (*this rate is used in the model*).

These rates are applied to the amount of income tax. Taxpayers of surtax are all taxpayers of income tax that reside in a town or a municipality that has prescribed surtax.

## Annex: Other benefits and direct taxes

This section provides a brief description of other cash benefits and taxes on employment incomes in Croatia that are relevant for some members of the population below the statutory retirement age, but which are not included in the OECD tax-benefit model.

### ***Cash assistance to a person insured in extended pension insurance on the grounds of a job contract for limited period for steady seasonal jobs*** (Novčana pomoć osobi osiguranoj na produženo mirovinsko osiguranje na temelju ugovora o radu na određeno vrijeme za stalne sezonske poslove)

A person insured in extended pension insurance (period of non-active employment) on the grounds of a job contract for limited period for steady seasonal jobs is a person who has performed seasonal jobs for at least 6 months for the same employer, and will work for him at least one more season. Social contributions paid during extended pension insurance, which usually burden the employer, are co-financed by Croatian Institute for Employment within this measure.

Basis for calculation of benefit is equal to beneficiary's average gross salary achieved in period of 3 months before termination of seasonal employment. Cash assistance granted for first 3 months of benefit duration is equal to 60% of the basis and for the remaining period it is equal to 30% of the basis. The maximum amount of benefit for the first 3 months cannot be higher than 70%, and for the remaining time cannot be higher than 35% of the average net salary paid in the Croatian economy in the previous year. Beneficiary can receive this benefit for 6 months of extended pension insurance at the most.

### ***Cash allowance during vocational training*** (Novčana pomoć za vrijeme obrazovanja)

The right to the cash allowance is provided to the unemployed person assigned to the vocational training by the Croatian Employment Service. Cash allowance during vocational training amounts to 50% of gross minimum wage reduced by compulsory social security contributions (20%). It is paid proportionally to the number of days person spent at the training. Reimbursement of travel expenses is paid in the amount of actual expenses of traveling by means of public transportation. This allowance can't be received at the same time with unemployment cash benefit (as well as during maternity and parental leave).

### ***Financial assistance during professional development without conceiving employment*** (Novčana pomoć za vrijeme stručnog osposobljavanja za rad bez zasnivanja radnog odnosa)

This assistance is intended for unemployed persons, up to 30 years of age, with less than one year of pension insurance period in their professional qualifications who are

registered at Croatian Institute for Employment for at least 30 days. Private and public entities admit the above mentioned category of people for a period of one year (in some vocations up to 36 months). They do not sign a working contract but a contract on professional development without conceiving employment. During this one year a person does not receive a salary, but a financial assistance. This assistance is paid by the Croatian Employment Service, while travel expenses are settled by employer. Assistance is determined proportionally to the period that person was present at professional development. From March 2017, cash assistance is equal to gross minimum wage reduced by compulsory social security contributions (20%). This allowance can't be received at the same time with unemployment cash benefit (as well as during maternity and parental leave).

***Lump-sum cash allowance for employment in place other than place of residence***  
(*Jednokratna novčana pomoć za zasnivanje radnog odnosa u drugom mjestu*)

The unemployed person to whom the Croatian Employment Service is not capable to provide a job in his place of residence, and who, either on his own or by the mediation of the Service, finds a job in another place, is entitled to the cash lump-sum allowance. Also, a beneficiary, if he changes his place of residence, is entitled to the reimbursement of travel and resettlement expenses for himself, his spouse and children, from the place of residence to the place of employment. The place of employment should be at least 80 km from the place of residence. A job contract has to be signed for at least one year.

The allowance is equal to 1 200 kuna. Reimbursement of travel expenses are paid for just one trip from place of residence to place of employment in the amount that cannot be higher than 300 kuna per each person. Resettlement expenses are reimbursed in the amount of 50% of resettlement by cheapest means of transportation, but the amount cannot be higher than 1 000 kuna. If a person doesn't change his place of residence, condition for duration of job contract doesn't apply and person can be entitled just to reimbursement of travel expenses for one trip between his place of residence and place of employment.

***Assistance in settling of heating costs*** (*Naknada za podmirenje troškova ogrjeva*)

A single person or a household, beneficiaries of the guaranteed minimum benefit, if they use wood for heating, once a year, are provided with 3 m<sup>3</sup> of wood or granted a cash amount to cover that cost. This right is financed from the budgets of regional self-government units who can determine the amount of cost that can be covered in cash instead of supplying wood.

***Benefit for users with difficulties in settling energy products expenditures*** (*Naknada za ugroženog kupca energenata*)

This benefit has been introduced in September of 2015. A beneficiary acquires the right for co-financing of electricity costs for his household. Benefit is granted to a beneficiary of guaranteed minimum benefit or disability benefit (or to a person living in a household with such beneficiary). Maximum amount of the benefit is 200 kuna per month. This is not a cash benefit, and beneficiary receives a voucher of certain value that he can use to pay electricity bills.

### ***Temporary child support (Privremeno uzdržavanje djeteta)***

Temporary child support is not a benefit specifically targeted to lone parents, but the main intention is providing support to a child whose parents had separated. This right is acknowledged to a child younger than 18 years, whose parent (the one that doesn't live with the child) is not fulfilling his commitment to support the child with full or partial amount of alimony continuously for at least three months. State will ask reimbursement for the whole amount of temporary child support paid to a child from the person obligated to support the child. Benefit can be granted regardless of child's financial position.

Amount of the benefit is equal to 50% of the prescribed minimum amount of alimony:

- For a child younger than 7 years of age – 483,23 kuna (50% of 966,45 kuna; 17% of average net salary)
- For a child older than 7 but younger than 13 years of age – 568,50 kuna (50% of 1 137,00 kuna, 20% of average net salary)
- For a child older than 13 but younger than 18 years of age – 625,35 kuna (50% of 1 250,70 kuna, 22% of average net salary).

The amount cannot be higher than the amount of alimony determined by distraint document.

Child is entitled to receive this benefit as long as a parent who is obliged to support him doesn't start paying alimony at least in the amount of this benefit, but maximum period for receiving temporary support is 3 years.

Temporary child support can be combined with the full amount of guaranteed minimum benefit and assistance in settling of housing and heating costs.

### ***Personal disability benefit (Osobna invalidnina)***

Personal disability benefit is a financial support intended for persons with severe disability or other serious long-term changes in health condition, in order to meet their basic needs for inclusion in the daily life of the community. Personal disability benefit on reference date (1 January 2018) amounts to 250% of the basis (1 250 kuna) for a person who does not have his own income. If a person earns an income other than salary, authorial fee, guaranteed minimum benefit, assistance in settling of housing costs, child allowance and some other social benefits - personal disability benefit is calculated as the difference between the full amount of benefit and the average income acquired in three months prior to application for this right. A beneficiary of personal disability benefit cannot simultaneously exercise the right to assistance and care supplement.

### ***Assistance and care supplement (Doplatak za pomoć i njegu)***

Assistance and care supplement is a cash benefit intended for person who cannot provide for his basic needs because of permanent changes in health condition, and therefore assistance and care of another person is much needed in organizing nutrition, food procurement, purchasing groceries, doing household chores, dressing, personal hygiene maintenance, and other basic needs.

This benefit cannot be acquired by a person whose average monthly income exceeds 250% of the basis (1 250 kuna), or if average monthly income of household exceeds the amount of 200% of the basis (1 000 kuna), in three months before a month in which the

application was submitted. Beside income, person's property is also subjected to means test. Persons with more severe disability can acquire this benefit regardless of their income or property.

Assistance and care supplement can be granted in full or reduced amount, depending on whether there is an urgent need of assistance and care in full or reduced volume. On reference date (1 January 2018), the full amount is 100% of prescribed basis (500 kuna) and the reduced amount is 70% of prescribed basis (350 kuna).

### ***Parent caregiver status benefit (Status roditelja njegovatelja)***

Status of parent caregiver is granted to one of the parents of a child with developmental difficulties, or of a person with disability and to a spouse (or life partner) of a person with disability. Caregiver parent is entitled to the compensation in the amount of five basis (2 500 kuna), pension and health insurance rights as well as unemployment rights, as a person employed under special regulations. If a child is medically treated, parent caregiver has the right for this compensation if the treatment does not last longer than two months.

### ***Up-to employment benefit (Naknada do zaposlenja)***

Up-to employment benefit can be granted to a child with developmental difficulties, or to a person with disability, for whom physical, mental, intellectual or sensory impairment has been established after finishing primary school, high school or university, but earliest at 15 years of age. Other condition for granting the benefit is that a beneficiary doesn't receive some other compensation related to unemployment and that he is registered as unemployed person in Croatian Employment Service or that temporary unemployability has been established. This right cannot be acquired by a person for whom the complete incapacity to work has been established. The amount of this benefit is set at 70% of basis (350 kuna). A beneficiary of this compensation cannot simultaneously be provided with assistance and care supplement. The right ceases when a beneficiary becomes employed.

### ***Lump-sum benefit (Jednokratna naknada)***

Lump-sum benefit is granted to a single person or a household who, due to current material difficulties, are not able to meet some basic needs caused by the birth or education of a child, illness or death of a family member, natural disasters, etc. Lump-sum benefit can be granted as compensation in cash or in kind. The total annual amount of all granted lump-sum benefits cannot exceed the value of five basis (2 500 kuna) for individual, that is seven basis (3 500 kuna) for a household. In particularly justified cases, social welfare center can grant lump-sum benefit in the increased amount (up to 10.000 kuna).

### ***Maternity leave (Rodiljni dopust)***

Employed or self-employed mother, in order to receive the full amount of benefit, has to acquire at least 12 months of insurance time in mandatory health insurance continuously or 18 months with interruptions in period of 2 years. Unless this condition is met, all salary compensations during maternity or parental leave are reduced to 70% of budget basis.

Budgetary basis, used for the calculation of maternity and parental cash supports, for year 2018 has been set at 3 326 kuna.

The maternity leave is granted for a period of 28 days before the expected birth up to the child's 6 months of age, which consists of compulsory and optional maternity leave. The compulsory maternity leave is 98 days, of which 28 days before the expected birth and 70 days after childbirth. Exceptionally, maternity leave can be started 45 days before expected birth if a doctor gynecologist makes such decision. The optional maternity leave (which starts after the compulsory) can be combined with half-time working arrangement, which can be extended up to the child's 9 months of age at the most.

During the maternity leave and the usage of the right on half-time working arrangement during optional maternity leave, employed or self-employed mother has the right on monthly salary compensation in the amount of her net salary (average net salary in last 6 months before the leave).

### *Parental leave (Roditeljski dopust)*

After the maternity leave, employed or self-employed parent has the right to parental leave, in duration of 6, 8 or 30 months (it depends on the number of children and the manner of usage of the right): 6 (one parent) or 8 months (both parents) for first and second child, and 30 months (for birth of twins, third and every child that follows). Parental leave can be used by both parents (each one for the period of 4 or 15 months). If the parental leave is used by only one parent, it is used in the duration of 6 months for first and second child, and 30 months for the birth of twins, third and every child that follows.

Employed or self-employed parent can use parental leave as the right on half-time working arrangement in duration twice the time of unused parental leave.

During the first 6 months of parental leave (if only one parent is using this right) or 8 months (if this leave is used by both parents), a parent has the right to monthly salary compensation in the amount of his/her net salary, but in the case of the parental leave it cannot be higher than 120% of the budgetary basis (3 991 kuna), or less than 70% of the budgetary basis (2 328 kuna). If parental leave is used as the right on half-time working arrangement, a parent has the right to monthly salary compensation which amounts 70% of the budgetary basis (2 328 kuna). After expiration of first 6 months of parental leave, a parent has the right to compensation in the amount of 70% of the budgetary basis (2 328 kuna).

### *Maternity and parental exclusion from work (Rodiljna i roditeljska poštuda od rada)*

Maternity and parental exclusion from work is entitled to: parent acquiring other income, parent agricultural worker and unemployed parent under certain conditions. Parent can use maternity exclusion from work until child fulfils 6 months of life (mother is obligated to use it for 70 days after birth). After the expiration of this right, unemployed parent can use parental exclusion from work in the duration up to child's age of one year (for first and second child) and up to child's age of three years (for birth of twins, third and every child that follows). Beneficiary has the right to a compensation in the monthly amount of 70% of the budgetary basis (2 328 kuna) during the maternity and parental exclusion from work.

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***Maternity and parental care for a new born child (Rodiljna i roditeljska briga o novorođenom djetetu)***

Mother outside the labour system, has the right to cash assistance during maternity and parental care for the new born child if she is insured in compulsory health insurance. Under maternity care it is understood a period of time from the child birth until 6 months of child's life (mother is obligated to use it for 70 days after birth). Parental care encompasses time period from 6 months of life until child's 1 year of age (for first and second child) or 3 years of age (for twins, third and every child that follows). Beneficiary has a right to a cash benefit in the monthly amount of 70% of the budgetary basis (2 328 kuna) during maternity and parental care for a new born child.

***Cash lump sum assistance for a new born child (Jednokratna novčana potpora za novorođeno dijete)***

Parents insured in compulsory health insurance (and subject to certain conditions) as well as certain categories of parents outside the labour system are eligible for this benefit. This financial assistance is provided in the amount of 70% of the budgetary basis (2 328 kuna).