

# INCENTIVE MEASURES FOR INVESTMENTS

## BENEFICIARY OF INCENTIVES MEASURES – ENTERPRISE

The recipient of incentive measures is an entrepreneur - natural person (craftsman) that is subject to income tax or company, which are registered in the Croatian territory. Undertaking in difficulty as prescribed in Article 2 point 18 of the Commission Regulation (EU) N°651/2014 of 17 June 2014 and an undertaking which is subject to an outstanding recovery order following a previous Commission decision declaring an aid illegal and incompatible with the internal market **cannot be beneficiaries of incentive measures.**

ENTERPRISE CATEGORY*	STAFF HEADCOUNT**	ANNUAL TURNOVER**	ANNUAL BALANCE SHEET TOTAL**	MAXIMUM AID INTENSITY (% of eligible investment costs)
Large	> 250	> 50 million €	> 43 million €	25%
Medium	< 250	≤ 50 million €	≤ 43 million €	35%
Small	< 50	≤ 10 million €	≤ 10 million €	45%
Micro	< 10	≤ 2 million €	≤ 2 million €	45%

\*In accordance with Annex I of Commission Regulation (EU) N°651/2014 of 17 June 2014

\*\* when calculating staff headcount and financial amounts one has to take into account also partner enterprises (proportional to the percentage interest in the capital or voting rights (whichever is greater) and linked enterprises (100%) as prescribed in Annex I of Commission Regulation (EU) N°651/2014 of 17 June 2014

## APPLICATION

According to the procedure for applying for incentive measures under the Act on Investment Promotion (OG, No. 102/15, 25/18, 114/18, 32/20, 20/21), an enterprise intending to acquire the status of a beneficiary of incentive measures must **file an Application for the use of incentives** using the prescribed forms to the **Ministry of Economy and Sustainable Development before the start of the investment. Start of investment** means the earlier of either the start of construction works relating to the investment or the first legally binding commitment to order equipment or any other commitment that makes the investment irreversible. Buying land and preparatory works such as obtaining permits and conducting feasibility studies are not considered the start of the investment.

## INCENTIVE MEASURES

Incentive measures for investment projects in the Republic of Croatia are regulated by the Act on Investment Promotion and pertain to investment projects in:

- manufacturing and processing activities,
- development and innovation activities,
- business support activities,
- high added value services.

Incentive measures cannot be granted to export-related activities towards third countries or the Member States, namely aid directly linked to the quantities exported, to the establishment and operation of a distribution network or other current costs related to the export activity; sector of processing and marketing of agricultural products, where the amount of the aid is fixed on the basis of the price or quantity of such products purchased from primary producers or put on the market by the undertakings concerned or where the aid is conditional on being partly or entirely passed on to primary producers; fishery, aquaculture and primary agricultural production sector; steel, coal, synthetic fibres and transport sector as well as the related infrastructure; energy generation, distribution and infrastructure; broadband infrastructure; research infrastructure; shipbuilding sector; financial and insurance sector; the health, welfare and education sector; trade sector; construction and real estate sectors; and sectors of water management, waste management and environmental remediation.

Incentive measures can be used by enterprises registered in the Republic of Croatia investing in fixed assets the minimum amount of:

- € 50,000 together with creating at least 3 new jobs for microenterprises,
- € 150,000 together with creating at least 5 new jobs for small, medium and large enterprises,
- € 50,000 together with creating at least 10 new jobs for ICT system and software development centres,
- € 500,000 for investment projects in modernising and increasing business process productivity.

Investment is an investment in tangible and intangible assets related to the setting-up of a new establishment, extension of the capacity of an existing establishment, diversification of the output of an establishment into products not previously produced in the establishment or a fundamental change in the overall production process of an existing establishment. For aid granted for a **fundamental change in the production process**, the eligible costs must exceed the depreciation of the assets linked to the activity to be modernised in the course of the preceding three fiscal years. For **aid granted for diversification of an existing establishment**, the eligible costs must exceed by at least 200 % the book value of the assets that are reused, as registered in the fiscal year preceding the start of works.

The minimum period for maintaining the investment and newly created jobs linked to investment is five years after the completion of works for large enterprises, and three years after the completion of works for micro, small and medium-sized enterprises, but no less than the period of use of the incentive measures.

Completion of works is the date when the business operation certificate is issued or the date when the material assets associated with the investment project become operational.

## AID INTENSITY

The amount of aid shall be calculated as a **prescribed percentage of investment value, which is determined on the basis of eligible investment cost. Eligible investment costs are:**

- tangible (new, not previously used) and intangible assets (patent rights, licences, know-how or unpatented technical knowledge), or
- costs of job creation calculated as the gross wage of newly employed workers calculated over a period of two years.

As eligible costs of investment cannot be calculated costs of acquiring land, previously constructed buildings/facilities and used equipment/machinery. For large undertakings, costs of intangible assets are eligible only up to a limit of 50 % of the total eligible investment costs for the project.

INVESTMENT AMOUNT (€ MIL.)	NEWLY EMPLOYED	PERIOD OF EMPLOYMENT (YEARS)	PROFIT TAX RATE DEDUCTION	PERIOD (YEARS)
0,15 -1 (>0,05 for micro and ICT system and software development centres)	5 (3 for micro and 10 for ICT system and software development centres)	3 (SME), 5 (large)	50%	10 (5 for micro)
1-3	10	3 (SME), 5 (large)	75%	10

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>3	15	3 (SME), 5 (large)	100%	10
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**Job creation means** a net increase in the number of employees in the establishment concerned compared with the average over the previous 12 months after deducting from the apparent created number of jobs any job lost during that period. In the tourism sector, seasonally employed persons shall also be included in the number of employees in accordance with their annual labour units fractions (but for these workers investor cannot receive incentives for job creation).

## TAX INCENTIVES

### EMPLOYMENT INCENTIVES

COUNTY UNEMPLOYMENT RATE	INCENTIVE RATE IN RELATION TO ELIGIBLE COSTS OF JOBS CREATION	INCREASE FOR DEVELOPMENT AND INNOVATION ACTIVITIES**	INCREASE FOR BUSINESS SUPPORT ACTIVITIES*** AND HIGH ADDED VALUE ACTIVITIES****
<10%	10% (max. 3,000 €)*	+50% (1,500 €)*	+25% (750 €)*
	4% (max. 1,200 €)	+50% (600 €)	+25% (300 €)
10-20%	20% (max. 6,000 €)*	+50% (3,000 €)*	+25% (1,500 €)*
	8% (max. 2,400 €)	+50% (1,200)	+25% (600 €)
>20%	30% (max. 9,000 €)*	+50% (4,500 €)*	+25% (2,250 €)*
	12% (max. 3,600 €)	+50% (1,800)	+25% (900 €)

\* The specified amount of the grant refers to the unemployed, who are registered as unemployed with Croatian Employment Service (CES) for at least 6 months, regardless of the length of the work experience and level of education, persons older than 50 years registered as unemployed with CES and persons without work experience registered as unemployed with CES. For other categories of workers, the incentive rate is 40% of the above-specified amount.

\*\* Development and innovation activities – activities that affect the development of new and significantly improving existing products, production series, manufacturing processes and / or production technologies

\*\*\* Business support services:

1. Customers / Clients relationship centres - all types of call centres, multimedia contact centres and other types of contact and service centres focused on technical support and problem solving for customers/clients.
2. Centres of outsourced business activities - focused on outsourcing and pooling of business activities, such as finance, accounting, marketing, product design, audio-visual activities, human resources development and development of information technology.
3. Logistics and Distribution Centres - aimed at establishing and building high-technology logistics and distribution centres providing intermodal transportation, warehousing, packaging and handling in order to significantly improve logistics and distribution activities within the business process and delivery of goods.
4. ICT System and Software Development Centres: development and application of information systems, outsourcing of IT management operating systems, development of telecommunications network operation centres and development and application of new software solutions.

\*\*\*\* High Added Value Activities:

1. Creative service activities: activities in the field of architecture, design, different forms of media communication, advertising, publishing, culture, creative industry and other activities in the field of fine arts
2. Hospitality and tourism activities - hospitality and tourism accommodation facilities categorised as at least four stars, such as hotel, aparthotel, tourist resort and camps; heritage hotels, diffused hotels, other types of accommodation facilities created by the renovation of cultural and historical structures, with the mandatory submission of conservation requirements of reconstruction; supporting services of the aforementioned types of accommodations; health tourism, congress tourism, nautical tourism, golf tourism, cultural tourism, entertainment and/or recreation centres and parks, ecological tourism projects and other innovative projects in tourism with high added value as well as nautical tourism projects with categories of four or more anchors; amusement and theme park projects.
3. Industrial engineering services.

### INCENTIVES FOR INVESTMENT IN DEVELOPMENT AND INNOVATION ACTIVITIES

For investment in development and innovation activities, a non-repayable grant shall be approved for the purchase of plant/machinery amounting to 20% of the actual eligible costs for purchasing plant/machinery, in the maximum amount of EUR 500,000 in equivalent HRK value, provided that the purchased plant/machinery represents high technology equipment.

### INCENTIVE MEASURES FOR LABOUR-INTENSIVE INVESTMENT PROJECTS

>100 NEWLY CREATED JOBS*	>300 NEWLY CREATED JOBS*	>500 NEWLY CREATED JOBS*
+ 25%	+ 50%	+ 100%

\*On incentive rate in relation to eligible costs of jobs creation.

### INCENTIVES FOR EDUCATION AND TRAINING

up to 50 % of the eligible costs of education and training*	+ 10% if the training is given to workers with disabilities	+10% if the aid is granted to medium-sized enterprises	+20% if the aid is granted to small and micro-sized enterprises
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\*incentives for education cannot exceed 70% of eligible costs of education and training or 50% of incentive in relation to eligible costs of jobs creation

\*\* The eligible costs for training may include trainers' personnel costs, for the hours during which the trainers participate in the training; trainers' and trainees' operating costs directly relating to the training project such as materials and supplies directly related to the project, depreciation of tools and equipment, to the extent that they are used exclusively for the training project; costs of advisory services linked to the training project; trainees' personnel costs and general indirect costs (administrative costs, rent, overheads) for the hours during which the trainees participate in the training. Accommodation costs are excluded. Incentives will not be awarded for the training conducted to ensure compliance with the mandatory training prescribed by national norms.

### INCENTIVE MEASURES FOR THE CAPITAL COSTS OF THE INVESTMENT PROJECT

INVESTMENT AMOUNT (€ MIL.)	NEWLY EMPLOYED	COUNTY UNEMPLOYMENT RATE	INCENTIVES FOR CAPITAL EXPENSES
5	50	10-20%	10% of the eligible costs of investments in long-term assets (max. 500.000 €)*
		>20%	20% of the eligible costs of investments in long-term assets (max. 1.000.000 €)*

\*eligible costs of investments in long-term assets are the construction of the new factory, production facility and buying of new machines, i.e. production equipment, with the condition that the part of the investment in the machines/equipment equals at least 40% of the investment and that at least 50% of those machines/equipment are of high technology.

### INCENTIVE MEASURES FOR INVESTMENT PROJECTS THROUGH ECONOMIC ACTIVATION OF INACTIVE PROPERTY OWNED BY THE REPUBLIC OF CROATIA

Inactive property is land and/or buildings owned by the Republic of Croatia managed by the Ministry of Physical Planning, Construction and State Assets, which is not in function and on which no economic activities are performed. Inactive property owned by the Republic of Croatia having unresolved property relations, property on which there is any type of registered burden and property that has the status of agricultural, forestry or tourist land is not considered as an inactive property within the meaning of this Act.

INVESTMENT AMOUNT (€ MIL.)	NEWLY EMPLOYED	OBLIGATORY INVESTMENT INTO INACTIVE PROPERTY GRANTED FOR LEASE	INCENTIVE	PROCEDURE FOR GETTING THE LEASE
3	15	50% increase of the value of the property within 3 years in relation to the estimated value of inactive property	free lease of inactive property for up to 10 years* from the start of the investment	for investment located in lower developed local self-government units (I-IV) – without any additional preconditions

at the time of starting the lease

for investment located in higher developed local self-government units (V-VIII) – after three rounds of the public tender for the sale of inactive property

\*After the expiration of the free lease or after reaching the maximum aid intensity, the beneficiary of the incentive measure can conclude the agreement on the purchase of the inactive property with the Ministry of Physical Planning, Construction and State Assets

## INCENTIVES FOR THE MODERNISATION OF BUSINESS PROCESSES - AUTOMATION, ROBOTISATION AND DIGITALISATION OF PRODUCTION AND MANUFACTURING PROCESSES

Only for investment projects in the manufacturing industry, that is, for investment projects in production and processing activities.

The minimum amount of investment in fixed assets is EUR 500,000, provided that the initial balance of employees is maintained throughout the use of the aid, and not less than the minimum period of preservation of the investment project in question for which the aid is intended to be used to modernise business processes.

INVESTMENT AMOUNT (€ MIL.)	DIFFERENCES IN LEVELS OF PRODUCTIVITY PER EMPLOYEE AFTER 3 YEARS	AID TO MODERNISE * BUSINESS PROCESSES (REDUCTION OF PROFIT TAX RATE)
0.5 - 1	>10%	50%
1 - 3	relative to the level of productivity per employee in the one	75%
> 3	year period prior to the filing of the investment project	100%

\*Modernisation is, a profound change in the production and processing process which involves the entry of long-term assets of equipment/machines into the ownership of investment support beneficiaries, which is categorised as a more technologically advanced generation of long-term high-tech assets relative to long-term assets being modernised such as specialised robots, robotic systems and robotic stations, automation and production process self-management equipment and machines, automated production management systems, and machinery/equipment for the digitisation of production and manufacturing processes.

It also entails the entry of long-term fixed assets into the ownership of investment aid beneficiaries, which is categorised as a more technologically advanced generation of long-term high-tech intangible assets relative to long-term assets being modernised, such as the latest generation of automated management software for manufacturing processes in the production and manufacturing industry, software in the function of digitisation of production and manufacturing processes, software for the development of self-managing systems, logic controllers and automated lines of production processes and software for machine learning, artificial intelligence development and system visualisation.