

CROATIA

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Comments related to any information in this Note should be addressed to [Lily Liu](#).

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I. SUMMARY

A. TYPES OF ORGANIZATIONS

Croatia is a civil law country with three primary forms of not-for-profit, nongovernmental organizations (NPOs):

- *Associations;*
- *Foundations; and*
- *Funds.*

Other not-for-profit legal forms, which are outside the scope of this Note due to their limited interaction with U.S. grantmakers, include political parties, minority councils, trade unions, economic interest associations, not-for-profit institutions, and religious organizations.

B. TAX LAWS

NPOs are generally exempt from paying profit tax, including on foreign grants and donations. Tax is imposed, however, if the NPO engages in for-profit activity and if an exemption from the tax would, in the view of the Tax Administration, confer upon the NPO an “unjustified benefit” in the market. If the Tax Administration believes the NPO’s activities would confer upon it an “unjustified benefit” in the market, then profit tax is imposed for particular activities.

Businesses and other legal entities may deduct donations to NPOs for a broad range of public benefit activities up to 2 percent of gross income realized in the previous year, although the threshold may be raised under certain circumstances and with the approval of the relevant ministry.

Value Added Tax (VAT) is required to be collected by entities (including NPOs) that have turnover exceeding 300,000 kuna (approximately \$47,000) in a given year. Certain transactions are exempt from VAT, including the purchase of goods and services made by charities or religious, patriotic, philosophical, or other public benefit NPOs for the benefit of their members, provided that they do not affect market competition.

II. APPLICABLE LAWS

- [Constitution on the Republic of Croatia](#), Official Gazette No. 85/2010
- [Law on Associations](#), Official Gazette No. 74/2014, 70/2017
- [Law on Foundations and Funds](#), Official Gazette No. 36/1995, 64/2001
- [Law on Profit Tax](#), Official Gazette No. 177/2004, 90/2005, 57/2006, 146/2008, 80/2010, 22/2012, 148/2013, 143/2014, 50/2016, 115/2016
- [Law on VAT](#), Official Gazette No. 73/2013, 99/2013, 148/2013, 153/2013, 143/2014, 115/2016
- [Law on Social Care](#), Official Gazette No. 157/2013, 152/2014, 99/2015, 52/2016, 16/2017, 130/2017
- [Law on Personal Income Tax](#), Official Gazette No. 115/2016

III. RELEVANT LEGAL FORMS

A. GENERAL LEGAL FORMS

Croatian law creates three pertinent legal forms of NPOs: associations, foundations, and funds. Associations are far more numerous than foundations and funds.

ASSOCIATION

An association is a voluntarily established organization of natural or legal persons formed and operated to advance purposes stated in its founding charter (also called a constitution or statute) without the intention of gaining profit ([Law on Associations Articles 4, 9, 13\(3\)](#)). An association is governed by its members, either directly or through elected representatives ([Law on Associations Article 16\(1\)](#)); its internal organization must be based on the principles of democratic representation ([Law on Associations Article 8](#)). It can seek “to protect and promote issues of public or mutual interest, human rights and freedoms, protection of

environment and nature and sustainable development, humanitarian, cultural, educational, social, professional, sports, technical, health care, scientific, and other interests and goals,” but may not pursue unlawful purposes ([Law on Associations Articles 4, 26](#)). An association, unlike a foundation or a fund, is not restricted to generally beneficial or charitable purposes. [1]

FOUNDATION

A foundation is property permanently assigned to serve some “generally beneficial” or “charitable” purpose ([Law on Foundations Article 2](#)). “Generally beneficial” includes cultural, educational, scientific, spiritual, moral, sports, health care, and environmental purposes. “Charitable” is defined as supporting persons in need ([Law on Foundations Article 2](#)). The beneficiaries need not be the general public; a foundation is considered generally beneficial even if its activities benefit only members of a particular profession, nationality, religion, or other group ([Law on Foundations Article 2](#)). The foundation cannot be created for unlawful or immoral purposes, or “if there is no serious reason for the establishment of a foundation, particularly if the purpose of the foundation is obviously lacking seriousness” ([Law on Foundations Article 6](#)). A foundation is generally created by a donor’s “letter of establishment” and administered by a director or a governing body pursuant to rules set forth in the foundation’s charter (also called a statute) ([Law on Foundations Articles 12-13, 18-21](#)). A foundation may be established by one or more domestic or foreign, physical or legal persons.

FUND

A fund is a foundation with a fixed lifespan of no more than five years ([Law on Foundations Articles 2, 32](#)). Property assigned to the one-time fulfillment of a generally beneficial or charitable purpose does not qualify as a fund ([Law on Foundations Article 32](#)). A regular foundation can be converted into a fund under certain circumstances ([Law on Foundations Article 33](#)).

Unless otherwise specified, references to “foundations” in this Note include funds.

B. PUBLIC BENEFIT STATUS

As a rule, public benefit NPOs are identified only by their activities. Activities of an association will be considered public benefit activities if they relate to: protection and promotion of human rights; protection and promotion of the rights of national minorities; protection and promotion of the disabled; the elderly; peacekeeping; combating violence and discrimination; values of the Homeland War; protection of children and youth and promotion of their active participation in the society; preventing and combating addiction; the development of a democratic political culture; promotion and development of volunteerism; social services and humanitarian work; development of social entrepreneurship; protection of consumers’ rights; protection of nature and the environment; protection of cultural heritage; sustainable development; development of local community; international development cooperation; protection of health; promotion of science; education and lifelong learning; culture and art; sports; firefighting; and other activities which, by their nature or special regulations, can be considered as public benefit activities ([Law on Associations Article 32\(4\)](#)).

Foundations and funds can be established as PBOs, but only if the purpose of establishment fits the prescribed criteria ([Law on Foundations Article 2](#)).

IV. Specific Questions Regarding Local Law

A. INUREMENT

An association cannot perform any activities for the purpose of gaining profit for its members or third parties. Any profit that the association generates must be used exclusively to advance the purposes set forth in its charter ([Law on Associations Article 30\(2\), 31\(2\)](#)). The law does not regulate the compensation, awards, or expense reimbursements by the association.

A foundation's property can likewise be used only to advance the foundation's purposes, which must be generally beneficial or charitable ([Law on Foundations Article 16](#)). The value of the property must not be decreased or wasted in the course of advancing the purpose ([Law on Foundations Article 16](#)). The property should be managed consistent with the foundation's Letter of Establishment or its charter ([Law on Foundations Article 31](#)). A foundation's director is entitled to appropriate compensation plus reimbursement of expenses ([Law on Foundations Article 13](#)). Members of a foundation's governing body cannot be persons to whom the benefits of a foundation are assigned ([Law on Foundations Article 21](#)). Members of this body are entitled to reimbursement of necessary expenses but generally not to compensation ([Law on Foundations Article 22](#)). Members of the body can be compensated if the foundation's charter permits it, but only from the foundation's income—not the principal—and only with the approval of the Ministry of Administration ([Law on Foundations Article 22](#)). Neither compensation nor reimbursement of expenses to members of a foundation's governing body is permitted if it would significantly impede realization of the purpose of a foundation ([Law on Foundations Article 22](#)).

B. PROPRIETARY INTEREST

An association is not permitted to return donations and assets to the founders upon dissolution, even if its founding charter allows it. The property of the foundation, in contrast, may be returned to the founders, though their property is in theory “permanently” assigned ([Law on Foundations Article 27](#)).

C. DISSOLUTION

Under Croatian law, the assets of a dissolved NPO are generally distributed according to the NPO's founding document. However, the law does establish some limitations. Upon dissolution, any assets of an association are distributed to another association, institution, or foundation with the same or similar goals, based on the decision of its members and according to its charter ([Law on Associations Article 53\(1\)](#)). The law requires that the charter set forth a plan for distributing property in the event of dissolution, in accordance with the limitations established by the law ([Law on Associations Article 13\(3\)](#)). The property may not be distributed to the association's founders, members, legal representatives, employees, or related persons ([Law on Associations Article 53\(2\)](#)). Assets received from state and local governmental authorities, EU funds, or other public sources, must be returned to the particular entity ([Law on Associations Article 53\(4\)](#)). If for any reason the property cannot be distributed according to the association's charter, it will be distributed to the local government, according to the seat of the association ([Law on Associations Article 53\(5\)](#)).

Upon dissolution of a foundation, its assets are ordinarily distributed in accordance with its Letter of Establishment or its governing charter; or, if that is not possible, to another foundation pursuing similar purposes. If neither of those distributions is possible, the property is assigned to a generally beneficial or charitable purpose that is similar to the will of the founders of the terminated foundation ([Law on Foundations Article 27](#)). Nothing in the law prevents a founder from directing the transfer of the property to individuals or for-profit entities.

D. ACTIVITIES

1. GENERAL ACTIVITIES

Associations and foundations are legal entities and are generally subject to the rights and obligations of other legal entities ([Law on Associations Article 5](#); [Law on Foundations Article 2](#)). An association may conduct activities that advance the purposes set forth in its charter ([Law on Associations Article 13\(3\)](#)), and is not restricted to generally beneficial or charitable purposes. A foundation, on the other hand, must pursue generally beneficial or charitable purposes.

2. PUBLIC BENEFIT ACTIVITIES

For all NPOs, including associations and foundations, specific activities are recognized as significant with regard to the public benefit, and consequently are entitled to some tax benefits and other minor advantages. These activities are in the areas of culture, education, science, health, humanitarian aid, human rights, children, ecology, and social welfare.

3. ECONOMIC ACTIVITIES

An association must be formed “without the intention of gaining profit” ([Law on Associations Article 4](#)). It may, however, “engage in activities for the purpose of gaining profit,” but any resulting profit must be devoted exclusively to advancing the purposes set forth in the association’s charter ([Law on Associations Article 31\(2\)](#)). The law also expressly forbids an association from undertaking any activities, whether for-profit or not-for-profit in nature, for the purpose of providing profits to its members or third parties ([Law on Associations Article 31\(2\)](#)). Other provisions of Croatian law regulate an association’s participation in particular forms of for-profit activity. [2]

A foundation may conduct economic activities related to its property; it may, for instance, lease its land or license its patents. It can also organize certain fundraising activities: humanitarian shows, occasional lotteries, the production and sale of publications and badges, and similar pursuits ([Law on Foundations Article 16](#)). For a foundation, as for an association, the law does not seem to limit the amount of resources that may be devoted to for-profit ends.

E. POLITICAL ACTIVITIES

The law does not restrict an NPO’s attempts to influence legislation. An NPO can publish its views, criticize state officials and state actions, lobby legislators concerning legislation, and encourage members and others to communicate with public officials. Nothing in the law limits the proportion of an NPO’s budget that it can devote to attempts to influence legislation.

However, other than by serving as an election observer, an NPO cannot legally participate in a political campaign for public office. Under Croatian election law, this kind of political activity is reserved exclusively for political parties (Official Gazette No. 120/2011, 19/2015, 104/2015).

F. DISCRIMINATION

The Croatian Constitution forbids discrimination based on race, gender, language, religion, and other stipulated grounds ([Constitution Article 14](#)). The application of anti-discriminatory principles is more precisely described in the Law on Combating Discrimination (Official Gazette No. 85/2008, 112/2012). The laws addressing associations and foundations do not expressly require non-discrimination, however. The foundation law, for example, authorizes the creation of foundations that benefit members of a particular national, linguistic, cultural, or religious group ([Law on Foundations Article 2](#)).

G. CONTROL OF ORGANIZATION

Nothing in Croatian law prevents a Croatian NPO from being controlled by another organization. A Croatian association or foundation may be established, but not owned, by a for-profit entity, which could continue to control it through governing bodies. A Croatian association or foundation, likewise, could be controlled but not owned by an American grantor charity.

V. TAX LAWS

A. INCOME AND PROFITS TAX

Associations and foundations are generally exempt from Croatian profit tax, including on foreign grants and donations. Taxes may be incurred, however, if an organization engages in for-profit activity and if exemption from the tax would give the organization an “unjustified benefit in the market.” The law is silent on what constitutes an “unjustified benefit,” so the Tax Administration operates with discretion in this sphere. If an organization is found to have crossed the “unjustified benefits” threshold, that particular for-profit activity is taxed at the regular business rate of 12 or 18 percent, depending on the amount of income.

B. DEDUCTIBILITY OF CHARITABLE CONTRIBUTIONS

Businesses and other legal entities may deduct donations to NPOs for a broad range of public benefit activities, including cultural, scientific, educational, health, humanitarian, sport, religious, ecological, and other activities up to 2 percent of the entity’s gross income realized in the previous year. However, the threshold may be raised if the donation is made on the basis of the decision of the relevant ministry for the pursuit of specific programs and actions.

C. VALUE ADDED TAX

Entities, including associations and foundations, whose turnover exceeds 300,000 kuna (approximately \$47,000) in a given year are required to pay VAT ([VAT Act Article 90](#)). The general VAT rate is 25 percent ([VAT Act Article 38](#)). However, some specific services and products—including scientific journals, some books, milk, bread, and some medicines—are taxed at a 5 percent rate, while others are taxed at a 13 percent rate ([VAT Act Article 38](#)).

Croatian law provides for a few VAT exemptions relevant to NPOs. The import of donated goods for the fulfillment of basic human needs—such as food, medicine, and clothes—as well as equipment donated by registered humanitarian and charity organizations, is exempt. However the exemptions are not applicable to alcoholic beverages, tobacco products, coffee, tea, and vehicles other than ambulances ([VAT Act Article 44](#)). A service provided by an NPO to its members is also exempt from VAT if the members are paying membership fees or real expenses for the service, and if exemption from the tax would not violate principles of market competition.

As of January 1, 2010, goods and services paid for with foreign monetary donations are subject to VAT.

D. DOUBLE TAX TREATIES

The United States and Croatia have not entered into a double-tax treaty. Individuals and entities paying Croatian profit tax, however, can receive a credit for profit tax paid elsewhere, up to the amount that would otherwise be due in Croatia (Profit Tax Act Article 30).

VI. KNOWLEDGEABLE CONTACTS

Mladen Ivanovic: mladenivanovic.mi@gmail.com

Zvonimir Mataga: zvonomir_mataga@yahoo.com

Sanja Baric: sbaric@pravri.hr

FOOTNOTES

[1] Croatian law also allows foreign NPOs and other entities to engage directly in activities in Croatia under certain circumstances. A foreign association can operate in Croatia if it abides by the Croatian Law on Associations ([Law on Associations Article 21\(2\)](#)). It must first seek registration from the government's state administration office. Applying for registration requires, among other things, providing copies of registration records from the association's home country and the association's governing statute (translated into Croatian), as well as identifying the individual who will represent the association in Croatia ([Law on Associations Article 28](#)). In addition, foreign legal entities and individuals (not just associations) can "perform the activities of social care" ([Law on Social Care Article 6](#)). "Social care" is defined as "organized activity of public interest aimed at providing support to socially endangered persons and those who have adverse personal or family situation" ([Law on Social Care Article 3](#)).

[2] An association may publish books and other materials, but only relating to its area of activity. It may sponsor games of chance once a year (Law on Games of Chance, Official Gazette No. 87/2009, 35/2013, 158/2013, 41/2014, 143/2014). It may undertake certain activities only after receiving a license, such as collecting and distributing humanitarian aid and providing psycho-social services.