

NONPROFIT LAW IN CROATIA



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This section describes the legal framework governing nonprofit organizations (also known as non-governmental organizations or NGOs) in Croatia, and includes translations of legislative provisions relevant for a foundation or advisor undertaking an equivalency determination of a foreign grantee under IRS Revenue Procedure 92-94.

These reports have been prepared by the [International Center for Not-for-Profit Law](#) (ICNL). Please direct corrections and comments to [Lily Liu](#).

We include hyperlinks to the following information, to the extent available:

- Longer country reports analyzing various aspects of local legislation; and
- Texts of local laws that affect the decision whether or not to qualify a grantee (generally in translation, although ICNL and the Council cannot warrant the accuracy of any translation; in addition, legislative excerpts were selected by in-country contacts, and ICNL and the Council cannot warrant that all relevant provisions have been translated).

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I. SUMMARY

A. TYPES OF ORGANIZATIONS

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

- Associations; and
- Foundations.

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 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, 5/2014
- [Law on Associations](#), Official Gazette No. 74/2014, 70/2017
- [Law on Foundations](#), Official Gazette No. 106/2018
- 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, 106/2018
- [Law on VAT](#), Official Gazette No. 73/2013, 99/2013, 148/2013, 153/2013, 143/2014, 115/2016, 106/2018
- [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, 106/2018

III. RELEVANT LEGAL FORMS

A. GENERAL LEGAL FORMS

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

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, and 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 and 26). An association, unlike a foundation, 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(1)). A foundation serves a "generally beneficial" purpose if it seeks to improve human rights (including civil rights), strengthen democratic institutions, protect the environment or nature, promote sustainable development, or engage in cultural, educational, scientific, spiritual, moral, sports, health care, and environmental activities. "Charitable" is defined as supporting persons in need (Law on Foundations Article 3(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 3(3)).

A foundation is generally established in perpetuity, but may also be established only until the foundation meets its purpose as defined in its founding document (Law on Foundations Article 5). A foundation is generally created by a donor's "letter of establishment" and administered by a manager and management board or other governing body pursuant to rules set forth in the foundation's charter (also called a statute) (Law on Foundations Article 6(3), 26(1)), and 26(2)). A foundation may be established by one or more domestic or foreign, physical or legal persons or by the State (Law on Foundations Article 6(1, 2)).

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 or the elderly; peacekeeping; combating violence and discrimination; values of the Homeland War; protection of children and youth and promotion of their active participation in 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 can be established as PBOs, but only if the purpose of establishment fits the prescribed criteria (Law on Foundations Article 3).

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 Articles 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 35(2)). The value of the property must not be decreased unless the Letter of Establishment or charter of the foundation contains a provision allowing for a decrease in property value, and if it is necessary to decrease the property value to fulfill the purpose of the foundation (Law on Foundations, Articles 35(6) and 35(7)).

Members of a foundation's governing bodies are not entitled to payment beyond appropriate compensation for their work (Law on Foundations Article 35(4)). Members of the body can be compensated if the foundation's charter permits it, but only from the foundation's income—not the principal (Law on Foundations Article 35(4)). Similarly, compensation or reimbursement of expenses to members of a foundation's governing body is permitted from the foundation's income (Law on Foundations Article 35(4)).

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 a foundation may not be returned to the founders upon dissolution, but can be given to another foundation or association pursuing a similar purpose, or to local or regional governments (Law on Foundations Article 35(8)).

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 donor 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 that has jurisdiction over the association, based on the association's registration address (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 to another foundation pursuing similar purposes, or to an association with similar goals, or to local or regional governments (Law on Foundations Article 35(8)). If none of those distributions is possible, the property is assigned to the local government of the territory where the foundation is located (Law on Foundations Article 35(9)).

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(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 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 34(3)). A foundation can conduct other economic activities provided that the activity is regulated by the foundation's charter,

and abides by special regulations stipulating the conditions for performing such activity (Law on Foundations Article 34(4)). 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.

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 3(3)).

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 currently 25 percent, but will decrease to 24 percent in January 2020 ([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, clothes, etc.—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.

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

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FOOTNOTES

[1] Croatian law also allows foreign NPOs and other entities to engage directly in activities in Croatia under certain circumstances. A foreign association or foundation can operate in Croatia if it abides by the Croatian Law on Associations (Law on Associations Article 21(2)) or Law on Foundations (Law on Foundations Article 20(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.