



INCENTIVE

MEASURES

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FOR INVESTMENTS

BENEFICIARY OF INCENTIVES MEASURES

The recipient of incentives 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 1, paragraph 4, point (c) of the Commission Regulation (EU) N°651/2014 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 incentives measures.**

INCENTIVE MEASURES FOR INVESTMENTS

ENTERPRISE CATEGORY*	STAFF HEADCOUNT**	ANNUAL TURNOVER**	ANNUAL BALANCE SHEET TOTAL**	MAXIMUM AID INTENSITY (% OF ELIGIBLE INVESTMENT COSTS)			
				PANNONIAN CROATIA	NORTH CROATIA	ADRIATIC CROATIA	CITY OF ZAGREB
LARGE	> 250	> 50 MILLION €	> 43 MILLION €	50%	50%	40%	35%***
MEDIUM	< 250	≤ 50 MILLION €	≤ 43 MILLION €	60%	60%	50%	45%
SMALL	< 50	≤ 10 MILLION €	≤ 10 MILLION €	70%	70%	60%	55%
MICRO	< 10	≤ 2 MILLION €	≤ 2 MILLION €	70%	70%	60%	55%

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

** 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

*** in the city of Zagreb large enterprises may receive incentive measures only for initial investments that create a new economic activity

INCENTIVE MEASURES

Investment incentives may be granted for an initial investment or an initial investment in favour of a new economic activity.

Initial investment means 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 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. 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.

Initial investment in favour of new economic activity means an investment in tangible and intangible assets related to the setting up of a new establishment, or to the diversification of the activity of an establishment, under the condition that the new activity is not the same or a similar activity to the activity previously performed in the establishment.

The same or a similar activity means an activity falling under the same class (four-digit numerical code) of the NACE Rev. 2 statistical classification of economic activities.

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 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; sectors of water management, waste management and environmental remediation; for the mining and extraction sectors; and for the transport and storage sectors.

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

Long-term assets are tangible and intangible assets entered into the ownership and shown in the balance sheet of the beneficiary. This must be done in accordance with accounting standards and they must be in

operation for at least five years for large or three years for micro, small and medium enterprises, that is, for the entire period of the use of incentive measures.

The project realization period lasts for three years from the starting date of the investment project and includes all investments initiated by the beneficiary of incentives during that period.

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.

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 assets (construction costs based on the building permit, i.e. based on the confirmation of the main project and the purchase of new equipment/machinery (standard basis)) 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 and material assets procured from related companies or made by beneficiaries of incentives measures. 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.

Job creation means a net increase in the number of employees compared to the initial number of employees, whereby employment from affiliated companies is excluded. The initial number of employees is determined as the average number of employees in the past 12 months before the start of the investment. Jobs lost during the three-year period of realization of the investment project will be subtracted from the apparent number of newly created jobs. 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).

APPLICATION

According to the procedure for applying for incentive measures under the Act on Investment Promotion (OG, No. 63/22), 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.

TAX INCENTIVES

INVESTMENT AMOUNT (€ MIL.)	NEWLY EMPLOYED	PERIOD OF EMPLOYMENT (YEARS)	PROFIT TAX RATE DEDUCTION	PERIOD (YEARS)
0,15 (>0,05 FOR MICRO AND ICT SYSTEM AND SOFTWARE DEVELOPMENT CENTRES) - 1	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
> 3	15	3 (SME), 5 (LARGE)	100%	10

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% – 15%	20% (MAX. 6,000 €)*	+50% (3,000 €)*	+25% (1,500 €)*
	8% (MAX. 2,400 €)	+50% (1,200 €)	+25% (600 €)
> 15%	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, and persons whose employment contract has been terminated due to the opening of bankruptcy proceedings. 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 Centres of business activities focused on the separation and/or concentration of business activities, such as data centres, design centres and product design centres, multimedia contact centres and information technology development centres.

2 Logistics and Distribution Centres – aimed at establishing and building high-technology logistics and distribution centres providing intermodal transportation, packaging and handling in order to significantly improve logistics and distribution activities within the business process and delivery of goods, and refer to investment projects in the manufacturing and processing industry.

3 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, media communication, advertising and other activities in the field of creative industry.

2 Sustainable tourism activities - services with high added value that enable the beneficiary of the investment incentives to operate tourist business for a minimum of six months during the calendar year after the end of the three-year period of realization of the investment project, and represent projects of hospitality and tourism accommodation facilities categorised as at least four stars, such as hotel, aparthotel, tourist resort and camps; projects of catering and tourist facilities - heritage hotel and diffused hotel, created by the restoration of cultural and historical heritage, in accordance with the regulations governing the protection and preservation of cultural assets; projects of accompanying contents of all previously mentioned types of accommodation facilities, which include: health, congress, nautical, cultural, golf, sports-recreational, entertainment-themed and tourist-ecological contents, as well as other innovative contents in tourism with high added value; as well as nautical tourism projects with minimum category of four anchors; amusement and theme park projects.

3 Industrial engineering services focused on modeling, design, restructuring and optimization of production and optimisation of manufacturing business processes.

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 eligible costs for purchasing plant/machinery, in the maximum amount of EUR 500,000, 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*
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+25%	+50%	+100%
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* 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*

* 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. 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

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

INVESTMENT AMOUNT (€ MIL.)	NEWLY EMPLOYED	COUNTY UNEMPLOYMENT RATE	INCENTIVES FOR CAPITAL EXPENSES
5	50	10% – 15%	10% OF THE ELIGIBLE COSTS OF INVESTMENTS IN LONG-TERM ASSETS (MAX. 500.000 €)*
		> 15%	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 the Act on Investment Promotion.

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 OF LEASING THE PROPERTY IN RELATION TO THE ESTIMATED VALUE OF INACTIVE PROPERTY AT THE TIME OF STARTING THE LEASE	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 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 or extend the lease contract without using investment

incentives for the economic activation of inactive property owned by the Republic of Croatia for a period of ten years 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 for modernizing business processes is intended.

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 YEAR PERIOD PRIOR TO THE FILING OF THE INVESTMENT PROJECT	75%
> 3		100%

* Modernisation, meaning a fundamental change in production and manufacturing, implies transferring fixed assets such as equipment/machinery into ownership of investment aid beneficiaries, where such assets are categorized as a technologically more advanced generation of high-tech equipment/machinery (fixed assets) compared to the long-term assets being modernised, such as specialized robots, robotic systems and robotic stations, equipment/machinery for automation and self-control of production processes, automatic production management systems and equipment/machinery for digitization of production and production processes. Also, modernisation, meaning a fundamental change in the production and processing, implies transferring long-term intangible assets to the ownership of investment aid beneficiaries, where such assets are categorized as a technologically advanced generation of high-tech intangible fixed assets compared to fixed assets being modernised such as: the latest generation of automated management software production processes in the manufacturing industry, software for the digitization of production processes and production, software for the development of self-controlling systems, logic controllers and automated production process lines and software for machine learning, artificial intelligence development and system visualization. For large entrepreneurs, acceptable costs for a fundamental change in production and manufacturing for which investment incentives for the modernisation of business processes is approved, must exceed the value of depreciation of the assets associated with the activity being modernised during the three previous tax years.

