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Global Individual Tax Handbook 2022

Global Individual Tax Handbook – 2022

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Preface

IBFD is pleased to present the 2022 edition of the *Global Individual Tax Handbook*. Together with the *Global Corporate Tax Handbook*, these titles provide the reader with a complete overview of the tax systems in 101 countries throughout the world.

All of the country surveys have been compiled to contain the most up-to-date information possible. In addition to the country level surveys, descriptions of the seven most important Swiss cantons are included.

The chapters of this book are also available in the online collection Country Surveys of the IBFD Tax Research Platform, which contains descriptions of the tax systems of over 200 countries and, in addition, descriptions of the tax systems of all Swiss cantons, US states and Canadian provinces, and selected Mexican states. The online title is *Global Tax Explorer*. It also includes the texts of income tax treaties concluded by all countries worldwide.

More comprehensive coverage of the majority of the jurisdictions can be found in the online collection Country Analyses. A combination of Country Surveys, Country Analyses and the texts of income tax treaties concluded by countries worldwide is offered via the online title *Global Tax Explorer Plus* and regional subsets of this title on Africa, Asia-Pacific, Europe, Latin America and the Caribbean, and the Middle East. Countries in North America can easily be ordered via the online title *Tax Explorer – Country Select*, which enables you to choose the exact countries for which you need coverage on the essentials on international tax. It also offers the possibility to extend this with the very detailed Country Analyses on major economies like Canada and the United States.

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April 2022

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Albania

This chapter is based on information available up to 26 January 2022.

Abbreviations

Abbreviation	English definition	Albanian definition
ITL	Income Tax Law	Ligji “Tatimi mbi te ardhurat”
SSL	Law on Social Security	Ligji “Per sigurimet shoqerore”

Introduction

Income of individuals is generally subject to income tax, except for business and professional income (subject to simplified profit tax on small businesses or profit tax, depending on annual turnover). Certain exemptions for low income apply. Social security and health contributions are imposed on employment income. No net wealth tax is imposed, but a property tax is levied annually on the owners and possessors of agricultural land, construction land or buildings. For VAT and miscellaneous indirect taxes, *see* Corporate Taxation sections 8. and 9., respectively.

The Central Tax Administration Office (*Administrata Tatimore Qendrore*) is responsible for the administration and collection of taxes.

The jurisdiction for tax purposes (except for certain local taxes) is the territory of Albania.

The currency is the Albanian lek (ALL).

1. Individual Income Tax

For resident taxpayers, a worldwide system of taxation applies under which income is subject to 15% tax rate (except for dividend income for which an 8% rate applies). However, employment income is subject to tax at progressive rates. No expatriate regime exists.

1.1. *Taxable persons*

An individual is deemed to be a resident of Albania if he has a permanent home in Albania or if he stays in Albania, either consecutively or intermittently, for more than 183 days in a calendar year.

Partnerships are separate taxable persons; they are subject to profit tax at the partnership level. The partners’ profit shares are subject to withholding tax, except when the partners are resident taxpayers that are registered for tax purposes (*see also* Corporate Taxation section 1.1.).

Each taxpayer must file a separate return (i.e. there is no joint filing possibility).

1.2. *Taxable income*

1.2.1. General

Resident taxpayers are subject to income tax on their worldwide income (article 7 of the ITL). Tax is computed separately on each category of income. The following categories of income are distinguished (article 8 of the ITL):

- salaries and other remuneration in connection with current employment;
- dividends and profit shares of partnerships;
- interest, except interest received on treasury bonds and other securities issued by the government before 21 January 1999;
- licence fees and other royalties;
- rental income;
- proceeds from the transfer of immovable property;
- income from lotteries and gambling;
- contributions, consisting of untaxed income, that increase the registered share capital of a company; and
- other income (i.e. any other item of income that is not explicitly exempt).

1.2.2. Exempt income

Exempt items of income include (article 8/1 of the ITL):

- allowances received from social and health insurance schemes, including pensions;
- donations to employees for illness, disasters or misfortunes, under certain conditions;
- contributions paid by employers to the voluntary life and health insurances of their employees;
- contributions to voluntary pension funds;
- contributions made by the employer and any other contributor on behalf of a member of a pension fund;
- financial compensation for former political prisoners;
- income exempted pursuant to international agreements ratified by the parliament of Albania;
- damages (and compensation for legal fees) awarded on the basis of a final court decision;
- income paid from state institutions for achievements in science, sport and culture;
- scholarships;

- compensation (cash or in kind) received with regard to expropriation;
- transfer of the ownership title of the house and/or land between family members (such as between husband and wife, or between parent and children) through donation or renunciation of the ownership right thereto, is exempt from personal income tax. Only one transfer of ownership right to each beneficiary is exempt; and
- salaries and bonuses of all athletes who have a regular (employment) contract with a sports club recognized by the relevant sporting federations that are received during the period 1 January 2021 to 31 December 2022.

1.3. *Employment income*

1.3.1. Salary

Salaries and other remuneration in connection with current employment include basic pay, overtime pay, bonuses and any other payment for the performance of employment. Commuting costs are not deductible. Moving costs are not deductible.

1.3.2. Benefits in kind

Benefits in kind associated with employment income are not included in taxable income (tax free for the recipient) but are non-deductible to the employer.

1.3.3. Pension income

Pensions received from social insurance schemes and are tax exempt (article 8(1) of the ITL).

Also tax exempt are the incomes from pension and other similar remunerations of:
- foreign citizens with Albanian origin;
- EU citizens that have obtained a residence permit in Albania; and
- foreign citizens who have obtained the Albanian citizenship,

provided that they receive these incomes in accordance with the legislation of the country where they benefit the pension or the other similar remunerations.

Contributions to voluntary pension schemes by the employer do not constitute taxable income of the employee, up to 15% of the gross annual income of the individual but not exceeding ALL 200,000 (annually). Exceptionally, if a pension fund member is 50 or older, the tax relief on annual contributions is up to 25% of the gross annual income of the individual but not exceeding ALL 250,000 (annually).

Contributions by the employee to voluntary pension schemes, within the limits described above, are deductible for income tax purposes.

1.3.4. Directors' remuneration

No special rules apply. Directors' remuneration is taxable as employment income.

1.4. *Business and professional income*

Individuals who carry on business activities and whose annual turnover exceeds ALL 8 million are subject to profit tax levied on net income (*see* Corporate Taxation section 1.).

Individuals who carry on small businesses or independent services and have an annual income of less than ALL 8 million are subject to a simplified profit tax on small businesses.

From 1 January 2021, taxpayers with an annual income of less than ALL 8 million are subject to the simplified profit tax at a rate of 0%. Before 2021, annual income up to ALL 5 million was exempt from profit tax, and income between ALL 5 million and ALL 8 million was subject to a rate of 5% on the profits.

1.5. *Investment income*

Dividends, interest, royalties and rental income are subject to a final withholding tax on the gross amount of the payment (*see* section 1.9.2.).

For foreign-source investment income, *see* section 6.1.1.

1.6. *Capital gains*

Capital gains on the sale of shares and the transfer of immovable property (buildings and land) are taxable at a rate of 15% (article 11 of the ITL). The taxable base is generally the difference between the sale price and the purchase price of the shares and immovable property. The term "transfer" includes sales and donations. The taxable base in the case of donations is the value of the property assessed by the immovable property registration office or an independent expert in case of donation of shares, minus the purchase price of the property. No other deductions are allowed. There are no provisions on rollover relief.

The seller or donor is liable for the tax. The tax must be paid before the registration of the transfer with the immovable property registration office.

See section 1.2.2. regarding the transfer of the ownership title of the house and/or land between family members through donation or renunciation of the ownership right thereto.

1.7. *Personal deductions, allowances and credits*

Non-residents are not entitled to the deductions described below.

1.7.1. Deductions

The Income Tax Law allows the following deductions from taxable income for resident individuals whose annual income does not exceed ALL 1,050,000 (article 13/3 of the ITL):
- interest on loans used to finance the education of the taxpayer (or any children and dependants of the taxpayer); and

Rica and any other income or profit originating from Costa Rican sources, unless specifically excluded by law.

Certain items received by the taxpayer are not included in gross income (e.g. inheritances, gifts and dividends). Dividends paid to individuals are considered a capital gain and subject to a final withholding tax.

Capital gains and rental income are subject to a 15% capital gains tax (*see* section 1.6.).

Individual income tax is assessed on total income (other than employment income) reduced by applicable expenses and deductions. Some rules described in Section A apply where relevant to individuals.

1.2.2. Exempt income

The following items are excluded from gross income:
- capital gains from the alienation of movable and immovable property, provided that they are not derived from habitual transactions, and that they are derived from depreciable assets;
- inheritances, bequests and marital property received by individuals;
- prizes from national lotteries;
- capital contributions, either in cash or in kind;
- income derived from revaluation of fixed assets;
- dividend distributions;
- income derived from contracts, agreements or negotiations of goods or capital located abroad, even if concluded or executed wholly or partly in the country;
- the Christmas or 13th-month bonus, limited to an amount not exceeding one twelfth of the annual employment income;
- compensation received as a lump sum or in instalments by reason of death or disability caused by accident or illness;
- remuneration paid by foreign governments to their diplomatic representatives, consular agents and officials accredited in the country, subject to reciprocity; and
- according to Law 9,324 of 2015, all pension benefits derived from the voluntary and mandatory complementary pension regime established in the Worker's Protection Law.

Exempt income is regulated by article 6 of the ITL.

1.3. *Employment income*

1.3.1. Salary

Employment income of resident individuals is subject to final withholding tax. Employees are not entitled to any deductions, except for family credits mentioned in section 1.7.3.

Final withholding tax on employment income specifically applies to:
- wages, extra wages, salaries, gratuities, commission fees, and payments for extra work made to employees for services rendered;
- fees and profit sharing received by executives, directors and members of advisory and other boards of Costa Rican stock corporations and other legal entities, irrespective of the meeting place;
- other employment income not mentioned above, including benefits in kind, *see* section 1.3.2.; and
- pensions and annuities of any kind.

This matter is regulated by article 23 of the ITL.

1.3.2. Benefits in kind

Benefits in kind received by employees and directors are considered taxable employment income and are subject to the progressive rates established for employment income. Benefits in kind include the provision of a motor vehicle, provision of accommodation (unless essential to the performance of the employment), interest forgone on loans and expense payments not relevant to the employee's duties.

Expenses incurred by the employer for certain items provided to the employee are deductible for the employer and are not considered taxable employment income, provided they are considered to be ordinary and necessary for the relevant business and for the employee's work. Some examples of these items are means of transport, mobile phone and corporate credit card.

This matter is regulated by articles 32 and 33 of the ITL.

1.3.3. Pension income

Article 23 of the ITL establishes that pensions are treated as employment income and are subject to final withholding tax at the progressive rates shown in section 1.9. Pension and social security contributions are not deductible. Payments made to non-resident pension funds and insurance companies are also not deductible.

See also sections 3. and 6.1.1.

1.3.4. Directors' remuneration

Directors' remuneration and similar amounts paid to executives or members of a legal entity are treated as employment income and subject to the progressive rates established for employment income (articles 32 and 33 of the ITL).

1.4. *Business and professional income*

Income from independent personal services is included in the total income of individuals and is taxed at the rates shown in section 1.9.

Professionals and technicians rendering independent personal services and sales, commission and insurance agents may choose to deduct either expenses necessary to produce taxable income under general rules or a lump sum of 25% of gross receipts or commission fees, as the case may be (article 8 of the ITL).

The tax administration may fully or partially disallow the deduction of an expense if the payments are deemed to be excessive or unnecessary to obtain or maintain taxable income. Deductions are regulated by articles 8 and 9 of the ITL.

1.5. *Investment income*

Investment income, i.e. dividends, interests and royalties, is considered capital gains and as such subject to a 15% final capital gains tax (article 27 bis and 27 ter of the ITL). Income from immovable property is also considered capital gains (*see* section 1.6.).

Government entities and financial institutions in the National Banking System (*Sistema Bancario Nacional*) have the obligation to withhold the capital gains tax when paying out interests (article 31 quater of the ITL).

For foreign-source investment income, *see* section 6.1.1.

1.6. *Capital gains*

Capital gains in Costa Rica are not considered ordinary income but are taxed separately, unless the gains and losses from the capital assets are obtained in the habitual course of the taxpayer's business (article 3 of the ITR).

Generally, capital gains are taxed at a rate of 15% on the gain. However, income from securities issued by the Popular and Development Bank (*Banco Popular y de Desarrollo Comunal*) is subject to 7% capital gains tax (article 31 ter of the ITL).

Individuals in Costa Rica cannot elect to revalue the capital gains on a regular basis. Tax is levied only on disposal of capital assets.

The following are considered capital assets (article 27 ter of the ITL):
– lease, sublease and transfer of rights (use or enjoyment) of real estate property;
– cash or in-kind income obtained from transferring funds to third parties, e.g. repurchase of securities in one or several operations;
– lease, sublease and transfer of rights (use or enjoyment) of movable property and assets such as goodwill, royalties, intellectual property rights and intangibles;
– interest income;
– currency exchange differences, provided that these are not subject to the general income tax; and
– dividend distributions.

Gains resulting from these capital assets are subject to a capital gains tax.

For exempt capital gains, *see* Corporate Taxation section 1.7.5.

Capital losses can offset the capital gains tax payed in the 12 months preceding the loss. The taxpayer will have to file a capital gains tax return requesting the compensation of the loss from the capital gains paid. If the loss is greater that the capital gains tax paid in the previous 12 months or if there is no gain in this period, the taxpayer is entitled to carry forward the losses to offset the capital gains tax in the next 3 consecutive years (article 31 bis of the ITL).

Neither indexation relief nor rollover relief is available in Costa Rica.

1.7. *Personal deductions, allowances and credits*

This section is not applicable to non-residents, *see* section 6.3.1.

1.7.1. Deductions

No personal deductions are available.

Expenses incurred in producing business or professional income are deductible under the general criteria.

1.7.2. Allowances

No personal allowances are available.

1.7.3. Credits

According to article 15 of the ITL, individuals deriving income (both self-employed individuals and employees) receive the following family-related annual tax credits (2022 amounts):
– CRC 19,320 (monthly CRC 1,610) for each dependent child, provided he is under 18 years old, and for dependants who are disabled or who are doing advanced studies and are under 25 years old; and
– CRC 29,160 (monthly CRC 2,430) for the spouse (if they are not legally separated); if both spouses are taxpayers, the credit may only be claimed by one of them.

In order to be eligible for the credits, individuals must provide to the employer evidence to substantiate the circumstances described above, *see* section 1.9.2.

Also creditable are:
– advance payments; and
– taxes withheld at source, unless final.

1.8. *Losses*

See Corporate Taxation section 1.5. for losses derived from a trade or business.

1.9. *Rates*

1.9.1. Income and capital gains

For tax year 2022, the tax rates applicable to individuals deriving independent lucrative activities are as follows:

Taxable income (CRC)			Tax rate (%)
Up to		3,836,000	0
3,836,001	–	5,729,000	10
5,729,001	–	9,555,000	15
9,555,001	–	19,150,000	20
Over		19,150,000	25

Each rate is to be applied on that part of income exceeding the lower limit.

The tax brackets are adjusted annually by the Executive Branch in accordance with changes in the price indexes prepared by the Costa Rica Central Bank, or in accordance with cost of living increases.

Applicable income tax rates for individuals with independent lucrative activities are regulated by article 15 of the ITL.

1.9.2. Withholding taxes

Employment income is subject to withholding tax.

For tax year 2022, wages and other employment income are taxed at progressive rates as follows:

Monthly income (CRC)	Tax rate (%)
Up to 863,000	0
863,001 – 1,267,000	10
1,267,001 – 2,223,000	15
2,223,001 – 4,445,000	20
Over 4,445,000	25

Each rate is to be applied to that part of income exceeding the lower limit.

The tax brackets are adjusted each tax year in accordance with changes in the cost of living shown in indexes prepared by the Costa Rica Central Bank.

Individuals deriving employment income may claim the following family-related credits against their liability to the final withholding tax (*see* section 1.7.3.).

For withholding tax rates on payments to non-residents refer to section 6.3.

The tax on employment income is withheld by the employer and must be paid to the Tax Administration within the first 15 working days of the month following payment of such income. If an employee derives income from several employers, he must request that one of them assesses and withholds the tax on total employment income.

Taxpayers who obtain income both from independent and from dependent services may take advantage only once of the exempt amount in the tax brackets.

Applicable tax rates for employment income are regulated by article 33 of the ITL.

1.10. *Administration*

Taxpayers are required to file a self-assessment return filed within 2 months and 15 days after the end of the tax year. Employment income is subject to final withholding tax.

1.10.1. Taxable period

Article 4 of the ITL and article 7 of the ITR regulate the taxable period. The Law to Strengthen Public Finances established that the tax year runs from 1 January to 31 December. Previously, the tax period was from 1 October to 30 September of the subsequent year. The tax administration may authorize other tax periods for specific activities.

1.10.2. Tax returns and assessment

The annual income tax return must be filed within 2 months and 15 days after the end of the tax year. The deadline for taxpayers following the regular tax period is 15 March (article 19 of the ITR).

Employees do not need to file a tax return as employment income is subject to a final withholding tax, unless they are earning other income through a different for-profit activity. Taxpayers who obtain other kinds of income must file an annual return under ordinary rules without including employment income.

There is no pre-assessment regime in Costa Rica.

This matter is regulated by article 20 of the ITL.

1.10.3. Payment of tax

Taxes must be paid simultaneously with the filing of the tax return (2 months and 15 days after the end of the tax period – article 19 of the ITR). The income tax and related surcharges, interest or fines must be paid to an agency recognized by the tax administration, e.g. a bank falling under the National Banking System.

Individual income tax is payable on a self-assessment basis. An individual must make three advance payments during each tax year, on account of the income tax that will ultimately be due on that year's results. The payments are due in the last working day of March, June and September and must total 75% of the income tax paid for the previous tax year or 75% of the average income tax paid for the previous 3 tax years, whichever is greater. Advance payments are calculated by the tax administration, except in the following cases, which must be calculated by the taxpayer:
– the first tax period of a taxpayer; and
– when the taxpayer foresees a greater tax than in previous tax periods.

Interest is levied on late or unpaid advance payments.

Any tax paid in advance in excess of the final annual tax liability will, upon request of the taxpayer, be refunded or credited against the advance payment in the current year. The quarters are correspondingly adapted depending on the specific taxable years authorized to certain taxpayers.

Any income tax withheld from income received by the individual, which is not considered final, e.g. withholding taxes and employment income, is credited against the individual tax due.

This matter is regulated by article 20 of the ITL.

1.10.4. Rulings

The tax administration is authorized to grant administrative interpretations (*consultas*) through private rulings addressed to a taxpayer. Rulings must be issued within a 45-day period from filing the request. If by the end of this 45-day period there is no response from the tax administration, the taxpayer's interpretation will be considered to be approved (article 119 of the GTC).

The ruling has an informative and non-binding effect, unless it is published by the tax administration. In that case, it will be binding upon the tax administration for all taxpayers.

See also Corporate Taxation section 1.8.4.

2. Other Taxes on Income

There are no local income taxes or business taxes on individuals.

3. Social Security Contributions

See also Corporate Taxation section 4.2.

3.1. *Employed*

The employee social security contribution is 10.50% of the gross salary. The contribution of the employer for social security is 26.50% of the gross salary.

Employees' social security contributions are not deductible for income tax purposes. Social security contributions are regulated by the Costa Rican Social Security Law.

Individuals deriving pension income must make social security contributions at the rate of 5% on the gross pension income.

Social security contributions are not deductible by the employee.

3.2. *Self-employed*

Self-employed individuals are also required to pay social security contributions. The rate depends on the income reported by the individual and it ranges from 11.5% to 18.75% of the gross income. Calculations are made using past tax returns as well as proof of real income provided by the self-employed individuals. In the event no past tax returns or proof are available, the contributions are calculated using the base salary. For 2022, the base salary is CRC 462,200. It is applicable from 1 January to 31 December and indexed annually.

4. Taxes on Capital

4.1. *Net wealth tax*

Costa Rica does not levy wealth tax on individuals.

4.2. *Real estate tax*

For real estate tax, *see* Corporate Taxation section 5.2.

Costa Rica also imposes a solidarity tax on dwellings, including those used habitually, occasionally or for recreational purposes (Law 8,683), to support the social housing programme *(impuesto solidario para el fortalecimiento de programas de vivienda*). The solidarity tax is calculated on the estimated value of the real estate asset, taking into account the land and the constructions. The tax rates for 2022 are as follows (Executive Decree No. 43370-H of 22 December 2021 adjusted the tax brackets for 2022):

Amount (CRC)			Tax rate (%)
137,000,001	–	344,000,000	0.25
344,000,001	–	691,000,000	0.30
691,000,001	–	1,036,000,000	0.35
1,036,000,001	–	1,383,000,000	0.40
1,383,000,001	–	1,726,000,000	0.45
1,726,000,001	–	2,073,000,000	0.50
Over		2,073,000,000	0.55

The exemption threshold is updated every year in December, considering the inflation rate for that year. For 2022, dwellings up to CRC 137 million are exempt from the solidarity tax (Executive Decree No. 43370-H of 22 December 2021).

4.3. *Other taxes*

Tax on vehicles, boats and planes

See Corporate Taxation section 5.3.

5. Inheritance and Gift Taxes

Costa Rica does not levy inheritance (estate) or gift tax.

5.1. *Taxable persons*

Not applicable.

5.2. *Taxable base*

Not applicable.

5.3. *Personal allowances*

Not applicable.

5.4. *Rates*

Not applicable.

5.5. *Double taxation relief*

Not applicable.

6. International Aspects

6.1. *Resident individuals*

For the concept of residence, *see* section 1.1.

6.1.1. Foreign income and capital gains

Income tax is levied on Costa Rican-source income only. Income, receipts and profits from Costa Rican sources are defined as amounts arising from services rendered, goods located or capital used in the territory of Costa Rica. Income from foreign sources is not taxed.

Income tax is applicable on all income originating within Costa Rica, regardless of the nationality, domicile or residence of the recipient.

There are no specific rules for residents seconded abroad. The general rules will apply.

6.1.2. Foreign capital

Capital located abroad is not subject to taxation in Costa Rica.

6.1.3. Double taxation relief

The Costa Rican tax system is based on the territoriality principle. There is no double taxation relief for foreign taxes. Foreign income taxes are not deductible for income tax purpose.

For a list of tax treaties in force, *see* the withholding tax rates chart in the Appendix.

6.2. *Expatriate individuals*

Costa Rican law does not include a specific regime for inward or outward expatriates.

6.3. *Non-resident individuals*

There is no definition of non-resident.

For the concept of residence, *see* section 6.1.

6.3.1. Taxes on income and capital gains

In general, non-residents are subject to the same rules as those applicable to resident taxpayers, as both are taxed only on Costa Rican-source income.

Costa Rican-source income or profits paid or credited to or put in any form at the disposal of non-residents is subject to a final withholding tax on the gross amount (*impuesto sobre las remesas al exterior*) and regulated through article 59 of the ITL.

Capital gains derived by non-resident individuals are subject to the general tax principles (*see* section 1.6.).

When a specific type of income is mentioned as "remittances abroad" under article 50 of the ITL, this income will not be considered capital gains, e.g. dividends, interest and royalties. In practice, there is no difference between treating dividends or interest income as a capital gain, as in both cases it is subject to a final 15% withholding tax. However, this is not the case for royalties, where article 50 of the ITL establishes a 25% withholding tax on the remittance of the royalty paid to a non-resident.

The taxable base is the total amount of income remitted, credited, transferred, compensated or put at the disposal of the beneficiary abroad.

6.3.1.1. Employment income

Employment income derived by non-resident individuals is subject to a 10% final withholding tax. Under certain case law the applicable rate is 15%, based on Art. 26 of the ITL. This matter is regulated by articles 54, 55 and 59 of the ITL.

6.3.1.2. Business and professional income

Professional services, including commissions, management and any other administrative service, rendered by non-residents are normally subject to a final withholding tax levied at a rate of 25% on the gross income. This matter is regulated by articles 54, 55 and 59 of the ITL.

6.3.1.3. Investment income

The general rule is that dividends paid by resident companies to non-resident individuals are subject to withholding tax at the rate of 15%. Costa Rican-source interest, commission fees and other financial income paid or credited to non-residents are subject to a final withholding tax at the rate of 15% on the gross amount.

Costa Rican-source royalties paid or credited to non-residents for the use of patents, formulas, trademarks, privileges or franchises are subject to final withholding tax at the rate of 25% on the gross amounts.

Other payments are subject to final withholding tax at various rates, e.g. insurance premiums, 5.5% plus the 4% tax destined to finance the Fire Rescue Department.

This matter is regulated by articles 54, 55 and 59 of the ITL.

6.3.1.4. Capital gains

Capital gains derived by non-resident individuals are subject to the general tax principles (*see* section 1.6.).

6.3.1.5. Other

Article 23 of the ITL establishes that pensions paid to non-residents are treated as employment income and are subject to final withholding tax at the rate of 10% (*see* section 6.3.1.1.).

6.3.2. Taxes on capital

No taxes on capital are imposed in Costa Rica.

6.3.3. Inheritance and gift taxes

Costa Rica exempts from income tax inheritances (estate) or gifts received by non-residents.

6.3.4. Administration

There are no special rules for non-resident individuals. The same rules as for resident individuals apply, *see* section 1.10.

For withholding taxes applicable to non-residents, *see* section 6.3.1.

Croatia

This chapter is based on information available up to 12 February 2022.

Abbreviations

Abbreviation	English definition	Croatian definition
NOD2022	Decision about amounts for contributions for 2022	Naredba o iznosima osnovica za obračun doprinosa za 2022 .godinu
OPZ	General Tax Law	Opci porezni zakon
ZD	Contributions Law	Zakon o doprinosima
ZFJLPRS	Law on Financing Local Self-Government and Administration Units	Zakon o financiranju jedinica lokalne i područne (regionalne) samouprave
ZPDoh	Personal Income Tax Law	Zakon o porezu na dohodak

Introduction

Individuals are subject to national income tax and local income tax surcharges. In addition, they may be subject to local inheritance and gift taxes and property tax on vehicles, boats and cottages. Individuals also pay social security contributions to various funds. Individuals engaged in a business may be liable to corporate income tax. For VAT and miscellaneous indirect taxes, *see* Corporate Taxation sections 8. and 9., respectively.

The currency is the Croatian kuna (HRK).

1. Individual Income Tax

1.1. *Taxable persons*

An individual is a resident taxpayer if he stays permanently or temporarily (uninterruptedly for more than 183 days) in Croatia (articles 2 and 3 of the ZPDoh).

Spouses are separate taxable persons (article 2 of the ZPDoh).

General and limited partnerships are treated as separate taxpayers (article 2 of the ZPDoh). Silent partnerships and civil partnerships are transparent for tax purposes, i.e. their partners are taxed individually on their share of the profits for the purposes of corporate or individual income tax, as the case may be.

1.2. *Taxable income*

1.2.1. General

Resident taxpayers are taxable on their worldwide income (article 6 of the ZPDoh). The following categories of income are subject to income tax (article 5 of the ZPDoh):
– employment income;
– self-employment income;
– income from property and proprietary rights (e.g. from renting or leasing movable or immovable property and from royalties) and capital gains from immovable property and rights in such property;
– income from capital;
– income from insurance;
– other income (e.g. income of members of supervisory and management boards, income of agents, journalists, artists and sportsmen, and income from copyrights and similar rights);
– income from certain services, in particular income from occasional and temporary services, are subject to tax at the general progressive rates; and
– income derived by employees from shares in the employer company (*see* section 1.3.1.).

The net income of each category is calculated as gross income less deductible expenses. The net results of the various categories of an individual are aggregated and the personal allowances are deducted from the aggregate amount. Employment income, income from capital, income from property and proprietary rights, income from certain types of self-employment income, income from insurance, and other income are, however, subject to a final withholding tax under certain conditions (*see* section 1.9.2.).

1.2.2. Exempt income

Exempt income includes any business income subject to corporate income tax (*see* section 1.4.), sums received on the basis of personal or property insurance under certain conditions, certain types of interest (*see* section 1.5.), and donations received by persons performing artistic or cultural activities, up to HRK 20,000 (article 9 of the ZPDoh). For exempt capital gains, *see* section 1.6.

From 1 December 2018, income derived from a performance award up to HRK 5,000 as well as a special bonus (e.g. Christmas, holiday bonus) up to HRK 3,000 annually is exempt from income tax.

1.3. *Employment income*

1.3.1. Salary

Employment income includes salaries, wages, bonuses and benefits paid by an employer, and pensions (article 14 of the ZPDoh). Employment income is the difference between gross income and compulsory social security contributions (*see* section 3.). Insurance premiums are deductible under certain conditions (*see* section 1.7.1.). No other employment-related expenses are deductible.

1.3.2. Benefits in kind

Benefits in kind received by an employee from his employer are subject to income tax (article 14 of the ZPDoh). Benefits are valued at the market value including VAT. In particular, the following benefits are taxable:
– the use of business premises, garages, cottages, dwellings and means of transportation provided by the employer (certain exceptions apply);
– preferential interest on loans granted by the employer. The taxable benefit is the difference between the rate of 2% and the rate charged by the employer;
– gifts and entertainment provided by the employer; and
– shares received from the employer (subject to a final withholding tax; *see* section 1.9.2.)

Stock options granted by the employer are taxed at the time of the disposal of stock; *see* section 1.6.

1.3.3. Pension income

Pensions from previous employment and from self-employment are subject to income tax (article 14 of the ZPDoh).

Receipts from voluntary pension insurance and life insurance are categorized as income from insurance. They are not taxable income to the extent that the premiums were not deductible. Insofar as such receipts are taxable, they are subject to a final withholding tax (*see* section 1.9.2.).

For foreign-source pensions, *see* section 6.1.1.

1.3.4. Directors' remuneration

Directors' remuneration is categorized as other income. It is subject to a final withholding tax (*see* section 1.9.2.). *See also* section 1.4.

1.4. *Business and professional income*

The category "self-employment income" includes income from a business, a profession (e.g. lawyer, architect), agriculture and forestry (article 18 of the ZPDoh).

Taxable income from self-employment is calculated as a difference between gross receipts and expenditures incurred during the tax period according to the business books. Only expenses directly linked to the earning of income from a business are deductible. Business entertainment expenses (e.g. expenses for gifts, holidays, sporting activities and recreation) are deductible up to 50% of their amount. No deduction is granted for income tax, inheritance and gift tax and value added tax, nor for fines. Certain insurance premiums may be deducted (*see* section 1.7.1.).

An individual entrepreneur engaged in a business may opt to be subject to profits tax (corporate income tax), instead of income tax, if in the preceding year (article 2 of the ZPD) his turnover was at least HRK 7.5 million.

Income earned by agents, journalists, artists and sportsmen falls under the category "other income", which is subject to a final withholding tax (article 30 of the ZPDoh) (*see* section 1.9.2.). In general, no deductions are allowed in calculating the taxable base, except for social security contributions paid. However, in some cases a 30% lump-sum deduction is allowed (e.g. for income of journalists and artists). Further, an exemption equal to 25% of the taxable base is granted for income derived by artists, subject to additional conditions. Taxpayers earning other income may, however, opt to be taxed under the rules applicable to business income.

Individuals who are owners, tenants or lessees of farmland or forestry and who pay value added tax are subject to income tax. The tax is paid in the same manner as tax on income from businesses.

Self-employed persons performing activities in territories of special state care qualified as category I are exempt from individual income tax (article 54 of the ZPDoh). Also, a reduced rate equal to 50% of the individual income tax rate applies to self-employed persons performing activities in territories of special state care qualified as category II. For a definition of categories I and II, *see* Corporate Taxation section 1.7.5.

1.5. *Investment income*

Dividends and profit shares are considered a capital income. From 1 January 2021, they are subject to a withholding tax of 10% (before, 12%) if paid by a resident company (article 30 of the ZPDoh). Dividends earned before 1 January 2001 and in the period of 1 January 2005 to 28 February 2012 are exempt from tax.

Interest including interest on savings accounts, royalties and income from renting and leasing movable and immovable property is taxable. Exempt types of interest include interest on current accounts in domestic or foreign currency, on securities issued pursuant to special laws and interest collected pursuant to court rulings and rulings of the bodies of local and regional self-government (article 30 of the ZPDoh) (*see* section 1.9.2.).

In general, no deductions are allowed for the calculation of the taxable base of investment income. However, a 30% lump-sum deduction is allowed for income from renting and leasing. In addition, certain insurance premiums may be deducted (*see* section 1.7.1.).

Taxable types of interest and royalties are taxed by way of final withholding (*see* section 1.9.2.). Income from renting and leasing is taxed by way of assessment at general income tax rates (*see* section 1.9.1.). However, a taxpayer renting or leasing immovable property may opt for taxation under the rules applicable to business income.

1.6. *Capital gains*

Capital gains from the sale of movable property and securities are currently not subject to tax. The capital gains tax at a rate of 10% plus city surcharge applies to gains derived from financial instruments. However, such gains are not taxable if the financial instruments are held for more than 3 years (article 30 of the ZPDoh).

Capital gains from the sale of immovable property and proprietary rights are taxed by way of final withholding (article 27 of the ZPDoh) (*see* section 1.9.2.). No personal allowances are granted at the time of withholding. The taxable amount is the market value of the property less the acquisition price (adjusted for inflation) and costs of alienation. However, such gains are not taxable if (i) the sale takes place after 3 years of ownership, (ii) the taxpayer or his dependants lived on the property before the sale or (iii) the sale is directly connected with a divorce or with an inheritance (article 27 of the ZPDoh).

Gains on proprietary rights (including intellectual property rights) are subject to a final withholding tax (*see* section 1.9.2.). In general, no personal allowances are granted at the time of withholding. The taxable amount is the market value of the proprietary rights less the acquisition price (adjusted for inflation) and costs of alienation.

From 1 January 2019, gains derived by employees from stock (options) are taxed at the moment of disposal of the stock. The rate of 20% plus city surcharge applies to derived gains, irrespective of whether stock options are granted under a domestic scheme or a foreign (parent) company scheme.

1.7. *Personal deductions, allowances and credits*

1.7.1. Deductions

No deductions are allowed.

1.7.2. Allowances

A basic personal allowance of HRK 4,000 per month is granted for resident taxpayers (article 36 of the ZPDoh). Retired persons are entitled to a personal allowance of HRK 4,000 per month. For persons residing in areas of special national concern (category I and II) and hill and mountain areas, the standard personal allowance is HRK 4,000.

Additional monthly personal allowances for residents include (article 36 of the ZPDoh):
- HRK 1,750 for a dependent spouse or other close family member;
- HRK 1,750 for the first child, HRK 2,500 for the second child, HRK 3,500 for the third child, HRK 4,750 for the fourth child, and up to HRK 14,750 for the ninth child;
- HRK 1,000 for the taxpayer, each dependent immediate family member and each child if they are disabled persons; and
- HRK 3,750 for the taxpayer, each dependent immediate family member and each child if these persons' disability degree is 100% and/or if they are entitled to care and assistance provided by other persons.

1.7.3. Credits

No credits are granted.

1.8. *Losses*

Losses may be carried forward for 5 years (article 35 of the ZPDoh). Losses from a sale of immovable property and proprietary rights may be offset only against income of the same kind.

A tax loss may not be determined on the basis of expenses for paid life insurance premiums which constitute savings, additional and private health insurance and voluntary pension insurance.

Losses are set off against taxable income before deduction of personal allowances.

1.9. *Rates*

1.9.1. Income and capital gains

The following rate structure applies (article 6 of the ZPDoh):

Taxable income (HRK)		Rate (%)
Up to	360,000	20
Over	360,000	30

From 1 January 2020, employees with an annual taxable income of up to HRK 360,000 who are 25 years old or younger are entitled to a 100% reduction of their tax liability, and those who are between 26 and 30 years old are entitled to a 50% reduction.

Municipalities are authorized to introduce a surcharge on the income tax at rates between 10% and 30%, depending on the number of inhabitants (article 30a of the ZFJLPRS). The actual highest rate of the surcharge is currently 18% (e.g. in Zagreb).

1.9.2. Withholding taxes

Employers are obliged to withhold tax from salaries at the following progressive rates (article 37 of the ZPDoh):

Taxable income (HRK per month)		Rate (%)
Up to	30,000	20
Over	30,000	30

If a taxpayer receives only employment income, the withholding tax is final.

Pensions based on obligatory old-age pension insurance are also subject to this withholding tax. The value of shares received from the employer is subject to a final 20% withholding tax. Receipts from voluntary pension insurance and life insurance are subject to a final 10% withholding tax. Such income is taxable if the premiums were tax deductible.

Income of the category "other income" (*see* section 1.2.1.) is subject to a final 20% withholding tax (article

48 of the ZPDoh). A final 30% withholding tax is levied on the amount of refunded social security contributions (*see* section 3.).

Income from shares in the company profits derived by members of the board of management and employees that are obtained via allocations of own shares or the share purchase option is taxed by way of final withholding. The rate is 20%.

Gains derived by employees from the disposal of shares granted under stock option plans are taxed at the rate of 20% (*see* section 1.6.).

In addition, a 30% final withholding rate applies to the withdrawals of assets and the use of services by the owner and joint owners of companies for the private purposes during the current tax period at the expense of the profits of the current period.

Taxable types of interest (*see* section 1.5. and royalties are taxed by way of final withholding (article 51 of the ZPDoh). The rate is 10% on (taxable) interest and 20% on royalties. A final withholding tax at a rate of 12% on interest on savings accounts applies (article 51 of the ZPDoh). The tax on the interest received will be withheld by the banks at a rate of 10%, regardless of the amount.

Capital gains from the sale of immovable property and proprietary rights are subject to a final 20% withholding tax (article 50 of the ZPDoh). Income from renting and leasing is subject to a final 10% withholding tax.

1.10. *Administration*

1.10.1. Taxable period

The tax year is the calendar year.

1.10.2. Tax returns and assessment

Taxpayers must submit their final tax returns for the total income derived in the tax year by 28 February of the following year (article 42 of the ZPDoh).

A taxpayer who earns only employment income on which income tax has been withheld (*see* section 1.9.2.) is not obliged to file a tax return. Instead, for the employment income derived in the tax year, the CTA issues a temporary tax assessment by 30 June of the following year (article 43a of the ZPDoh).

1.10.3. Payment of tax

Taxes are collected during the year by way of withholding, e.g. on employment income or by prepayments, e.g. on business income (article 43 of the ZPDoh).

The monthly prepayments on business income are assessed on the basis of the tax paid in the previous tax year. Taxpayers who have started business activities during the tax year do not make advance payments until they submit their first tax return.

The final tax assessment is carried out by the tax authorities. Tax must be paid within 15 days of the receipt of the notice of assessment (article 44 of the ZPDoh). Withheld or prepaid taxes are credited against the final tax liability; any excess tax is refunded. However, if the taxpayer has paid income tax according to the business books, excess tax may be carried over to the next tax period.

1.10.4. Rulings

Tax rulings may be obtained with respect to the following issues (article 9a of the OPZ):
- determination of input VAT deduction;
- tax treatment of investment projects representing amounts exceeding HRK 20 million;
- determination of the taxable base in cases of mergers, divisions, partial divisions, transfers of assets and exchanges of shares;
- application of tax treaties; and
- tax treatment of business activities not comparable to business activities conducted in Croatia.

In general, a tax ruling is considered to be a binding opinion issued by the tax authorities based on specified facts and circumstances.

2. Other Taxes on Income

There are no other taxes on income of individuals. An individual entrepreneur engaged in a business may opt to be subject to corporate income tax, instead of individual income tax.

3. Social Security Contributions

Employees are obliged to pay pension and disability insurance contributions on their gross wages and salaries (excluding fringe benefits) at a 20% rate (article 13 of the ZD). The contributions are calculated and withheld by the employer from the employees' remuneration. They are deductible from the employees' taxable income. In 2022, the annual maximum base is HRK 686,664 (article 5 of the NOD2022. Contributions paid in excess of the maximum base are refunded; the refunded amount is subject to a final withholding tax (*see* section 1.9.2.). The monthly minimum base for 2022 varies from HRK 3,624.06 to HRK 57,222, depending on the type of employment.

If Croatia has a social security agreement with a non-resident's country, the non-resident earning income in Croatia pays social security contributions on the basis of the agreement's provisions.

For social security contributions payable by employers, *see* Corporate Taxation section 4.2.

4. Taxes on Capital

4.1. *Net wealth tax*

No net wealth tax is imposed in Croatia.

4.2. *Real estate tax*

See Corporate Taxation section 5.2.

5. Inheritance and Gift Taxes

5.1. *Taxable persons*

Inheritance and gift tax is levied on individuals who have inherited movable and immovable property, including cash, monetary claims and shares, or who have received it as a gift in Croatia. Immediate relatives (i.e. spouses, children and parents) are exempt from inheritance and gift tax (articles 6 and 7 of the ZFJLPRS).

5.2. *Taxable base*

The taxable base is the market value of the property at the moment of tax assessment after deduction of expenses and debts encumbering the property (article 9 of the ZFJLPRS).

5.3. *Personal allowances*

Movable property, cash, monetary claims and shares inherited or received are taxable if their taxable value exceeds HRK 50,000 (article 6 of the ZFJLPRS).

5.4. *Rates*

Inheritance and gift tax is levied at a rate of 4% (article 13 of the ZFJLPRS).

5.5. *Double taxation relief*

There are no inheritance and gift tax treaties concluded by Croatia.

6. International Aspects

6.1. *Resident individuals*

For the concept of residence, *see* section 1.1.

6.1.1. Foreign income and capital gains

Resident individuals are taxable on their worldwide income. Under domestic law, foreign-source income is treated the same way as domestic-source income.

Foreign-source pensions are treated as employment income.

Residents who receive employment or other type of income directly from abroad without the mediation of a domestic payer must calculate the advance tax payment on employment income or other type of income and pay it within 8 days from the day they receive the income (article 39 of the ZPDoh).

6.1.2. Foreign capital

There are no taxes on capital.

6.1.3. Double taxation relief

In the absence of a tax treaty, unilateral relief is granted in the form of an ordinary tax credit for income taxes paid abroad (article 37 of the ZPDoh).

6.2. *Expatriate individuals*

There is no special tax treatment for expatriates.

6.3. *Non-resident individuals*

For the concept of residence, *see* section 1.1.

6.3.1. Taxes on income and capital gains

Non-resident individuals are taxable on their income from Croatian sources (article 3 of the ZPDoh). Income from business activities and professional activities carried on in Croatia is subject to income tax, irrespective of whether it is earned through a permanent establishment or fixed base (article 15 of the ZPD).

Most types of income derived by non-residents are subject to withholding tax at the following rates (article 51 of the ZPD):
- 20% on royalties, directors' remuneration and on income of sportsmen, artistes and entertainers; and
- 10% on interest (other than exempt interest, *see* section 1.5.).

From 1 January 2021, payments of dividends (and other participations in profits) made on or after 1 March 2012 are subject to a withholding tax of 10% (before, 12%). They are taxed in the same manner as residents; *see* section 1.5.

For lower rates on interest and royalties under tax treaties, *see* the withholding tax rates chart in the Appendix.

The withholding tax is levied on gross payments, except for payments to sportsmen, artistes and entertainers, which are taxed only for 70% of their gross amount (article 32 of the ZPDoh). The withholding taxes are final and no personal allowances are granted.

Income other than that subject to withholding tax is generally taxed in the same manner and at the same rates as income of resident taxpayers. The basic personal allowance (*see* section 1.7.2.) is granted.

For capital gains, *see* section 1.6.

6.3.2. Taxes on capital

There are no taxes on capital.

6.3.3. Inheritance and gift taxes

See section 5.

6.3.4. Administration

Non-residents must file annual tax returns with respect to Croatian-source income other than income subject to a final withholding tax. A tax return must be filed by 28 February of the year following the tax year.

Notes

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