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REPORT

From: General Secretariat of the Council
To: Permanent Representatives Committee/Council

Subject: Code of Conduct Group (Business Taxation)
– Report to the Council
= Endorsement

Croatia's Act on State Aid for Research and Development Projects (HR013)

The following description of the regime was agreed by the Code of Conduct Group on 20 May 2019:

1. Relevant legal framework

The Act on State Aid for Research and Development Projects (OG No. 64/18) and the Ordinance for State Aid for Research and Development Projects (OG 9/19) represent the legal framework.

The measure is available to any taxpayer (legal or natural persons) liable to Croatian Profit tax or Croatian Income Tax in line with the usual rules on profit/income taxation. The Act is effective since 26 July 2018 and the Ordinance is effective since 2 February 2019.

2. Purpose of the measure

The aim of the measure is to increase private sector investment in Research and Development (R&D) and improve the environment for R&D, in order to achieve a goal of 1.4% investment in R&D in Croatia by 2020.

3. Design of the measure

3.1 Beneficiaries

Any taxpayer subject to Profit Tax or Income (Personal) Tax may benefit from the tax deduction.

The only restrictions relate specifically to entrepreneurs who are subject to a non-recovery of refund order under the General Block Exemption Regulation, entrepreneurs in bankruptcy procedures, entrepreneurs who have failed to meet their tax obligations or obligations to employees.

3.2 Territorial scope

The beneficiary of the aid is a taxpayer established in accordance with the regulations of the Republic of Croatia on profit or income taxation. If a part of the project can't be executed by the beneficiary, the beneficiary may contract this part of the project by contractor who is not from the Republic of Croatia. These costs shall be eligible up to a maximum of 30% of the total eligible project costs.

3.3 Eligible activities

In principle, the deduction is available to beneficiaries in all activity sectors and all scientific and technological areas.

In particular, research and development activities under one or more of the following categories qualify: fundamental research, industrial research, experimental development, and feasibility studies for R&D project.

3.4 Tax advantage

The advantage takes the form of an additional deduction from the tax base.

A beneficiary is entitled to the additional tax base deduction (TBD) for the eligible costs of R&D projects, i.e. for feasibility studies, in accordance with the profit tax or income tax regulations, in the following total percentages:

- a) 200% of eligible project costs for basic research
- b) 150% of eligible project costs for industrial research
- c) 125% of eligible project costs for experimental development
- d) 150% of eligible costs for the feasibility study.

The tax base deduction amount (TBDA) is calculated by using the following formula: $TBDA = C \times TBD$ where C is the total amount of eligible costs by category of R&D or feasibility study, and the TBD is the tax deduction percentage in accordance with percentages above mentioned.

The State aid amount is calculated by the following formula: $SA = TBDA \times R$. R means the appropriate rate of profit tax, i.e. the average appropriate income tax rate.

3.5 Amount of the tax exemption

The total amount of research and development aid that a beneficiary may receive per project cannot exceed a maximum amount.

The total amount of state aid that a beneficiary can achieve under this Act is as follows:

- a) for predominantly basic research: the amount in HRK equivalent of up to € 300,000 per entrepreneur per project
- b) for predominantly industrial research: the amount in HRK equivalent of up to € 200,000 per entrepreneur per project
- c) for predominantly experimental development: the amount in HRK equivalent to € 100,000 per entrepreneur per project
- d) for feasibility studies in the preparation of research activities: the amount in HRK equivalent to € 50,000 per study.

However, the total amount of State Aid for an R&D project that an individual entrepreneur can achieve under this Act may be increased. This increase can occur if more than 50% of the cost of research conducted (on the basis of contracts, knowledge, and patents obtained or licensed by the other parties under market conditions, and the costs of consultancy and similar services provided solely for the project) are contracted with organisations for research and dissemination of knowledge, as follows:

- a) for predominantly basic research: the amount in HRK equivalents up to € 40 million per entrepreneur per project
- b) for predominantly industrial research: the amount in HRK equivalent of up to € 20 million per entrepreneur per project
- c) for predominantly experimental development: the amount in HRK equivalent to € 15 million per entrepreneur per project.
- d) for feasibility studies in the preparation of research activities: the amount in HRK equivalent to € 7.5 million per study.

The rationale for this treatment is to stimulate cooperation by entrepreneurs with research and knowledge dissemination organisations.

The State aid amount shall also be limited by the maximum aid intensity laid down in Article 11 of the Act. These limits (maximum aid intensity) are:

- a) 100% of the eligible project costs for basic research
- b) 50% of eligible project costs for industrial research *
- c) 25% of eligible project costs for experimental development *
- d) 50% of eligible costs for feasibility studies **.

* Support intensity for industrial research and experimental development may in some cases be increased to a maximum aid intensity of 80% of eligible costs for industrial research and experimental development.

** Intensity of support for feasibility studies can be increased by 10 percentage points for medium-sized entrepreneurs and 20-percentage points for small entrepreneurs.

3.6 Form taken

The taxpayer must submit an application to the implementing authority, The Croatian Agency for SMEs, Innovations and Investments HAMAG-BICRO, in advance of starting the research activities.

3.7 Requirements to be fulfilled

The taxpayer must submit an *Application for Granting State Aid for Research-Development Project* prior to starting the activities on the project. The Croatian Agency for SMEs, Innovations and Investments HAMAG-BICRO, is the implementing authority and carries out this function on behalf of the Ministry of Economy, Entrepreneurship and Crafts.

This agency is responsible for: the administrative verification, the verification of the eligibility of the beneficiary, project, activity, and costs; recording details of the beneficiaries for research and development projects, follow up with the beneficiaries, and reporting on results and impact of the measure.

Once procedure of processing the application is complete, the granting authority issues to the state aid beneficiary the Confirmation on the Status of State Aid Beneficiary or Notice on Non Acceptance of the Application.
