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croatia | **corporate law**

Regulations and Rules

The Croatian legal framework governing corporate law is primarily regulated by Companies Act (ZTD). But also by the Court Register Act and the Rules of Court Register Entry Procedures. Generally, foreign investment in Croatia has been legally designed in a way that does not differentiate between domestic and foreign investors. All possibilities in relations between domestic investors are also open to foreigners investing capital in Croatia.

A company is a legal entity established and organized in accordance with the Companies Act. All companies are registered with the Commercial Court Registers.

Types of Companies

Under the Companies Act, it is possible to start a company as a company based on capital or as a partnership, which is an association of persons. Companies based on capital are a limited liability company (d.o.o.) and a joint-stock company (d.d.) Companies based on partnership are a general partnership (j.t.d.), an association based on common economic interest (GIU) and a limited partnership (k.d.).

The Liability of Shareholders in the Company (in each essential) Type

LIMITED LIABILITY COMPANY (d.o.o.)

Company assets are strictly separated from the property of owners. The company is liable for its debts with all its assets. Owners are not liable for company debts. Exceptionally, they may be held liable for company debts if they abuse the principle of their non-liability.

JOINT-STOCK COMPANY (d.d.)

The company is liable for its debts with all its assets. Shareholders are not liable for the debts of the company.

GENERAL PARTNERSHIP (j.t.d.)

Every partner has unlimited and joint liability to cover the partnership's debts with all their assets.

ASSOCIATION BASED ON COMMON ECONOMIC INTEREST (GIU)

Every member (an individual or a legal entity) of the association has unlimited liability to cover the debts of the association with all of his/her/its assets.

LIMITED PARTNERSHIP (k.d.)

At least one partner has unlimited and joint liability for company debts with all his/her assets (general partner), and at least one partner has limited liability proportional to the assets invested (limited partner).

Share Capital (Minimum and Minimum Paid in Amount)

A general partnership (j.t.d.) does not have initial capital. Unless otherwise provided by the articles of association, partners should bring equal stakes into the company. The stakes may consist of cash, tangibles, rights, labor and other services and goods. A limited partnership (k.d.) does not have initial capital, and neither does the common economic interest association (GIU) which is established without initial capital and in which the rights of members may not take the form of securities.

According to the Companies Act the initial authorized capital of a limited liability company (d.o.o.) must be deposited before the founding of the company and may not be below HRK 20.000,00. The amount of the initial capital must be dividable by the number 100, and the same may consist of one or more deposits that cannot be less than HRK 200,00 per deposit. The minimum

amount of an initial authorized stake must be expressed with a whole number that is a multiple of the number 100. The sum of initial authorized stakes must be equal to the total amount of initial capital.

Joint-stock company (d.d.) is a company based on capital, with owners (shareholders) investing in initial capital divided into shares. The minimum amount of initial capital is HRK 200,000.00. This type of company may be established by a single owner, thus having only one shareholder. Issued shares may be with an indication of their par value or shares without such indication. The par value of a share may not be below HRK 10,00, and par values higher than this minimum amount must be in the amounts that are a multiple of HRK 10,00.

Classes of Shares (Registered, Bearer, Preferred, Ordinary)

In a joint-stock company (d.d.), which is a company based on capital, the capital invested is divided into shares. These shares may be registered shares (transferred by endorsement or assignment - cession) or bearer shares (transferred when handed over). As a rule, shares are freely negotiable. In terms of the rights they ensure, shares may be ordinary, ensuring their holder the right to vote in a general meeting, to receive dividends and the right to the respective portion, and preference shares which give certain preferential rights to their holders, such as the right of priority in the disbursement of dividends or in receiving the remainder of the bankruptcy estate as well as other rights as specified by law and by the company's articles of association.

Corporate Governance: Classes

In companies based on partnerships company governance is different than in companies based on capital. In a general partnership (j.t.d.) the management of the company is the responsibility of all partners and each partner is authorized to represent the company. The articles of association may stipulate that only one or several partners run the company. In a limited partnership (k.d.) company management and representation are entrusted only to general partners, whereas in the association based on common economic interest (GIU) there is a management board of the association which runs its operations and represents

it. The management board may consist of one or more persons appointed by the members of the association.

On the other hand, the Companies Act (ZTD) defines in much more detail company governance in companies based on capital.

In a limited liability company (d.o.o.) there must be a management board and a general meeting. The company management board may have one or more members (directors) who are appointed and released from their duties by the company owners. The management board is responsible for company management, company representation, and the orderly keeping of the company's business records, preparation of financial reports and records of ownership stakes in the company. A company may have a supervisory board if it is stated in its articles of association, but it must have a supervisory board in situations where the Companies Act (ZTD) explicitly requires so (e.g. if the average number of employees in a year exceeds 300, if the law explicitly requires so for a particular business activity, etc). The supervisory board consists of 3 members, unless defined in the company's articles of association that it consists of more than three. In any case there can not be an even number of members. A company general meeting is a mandatory body, consisting of all company owners who vote in a general meeting to decide on issues that are their responsibility pursuant to the Companies Act and to the company's articles of association.

In a joint-stock company (d.d.) the following bodies are mandatory: the management board, the supervisory board and the general meeting. The management board consists of one or more members (directors), their number being defined by the articles of association. If the management board consists of several members, one must be appointed chair. Members of a management board and the chair are appointed by the supervisory board for a maximum period of five years, with a possibility of re- appointment. The supervisory board has minimally three members unless defined in the company's articles of association that it consists of more members, but in any case it should be an odd number. Members of the supervisory board are elected by the general meeting for a maximum term of office of four years, and they can be re-elected. The general meeting is a body consisting of all shareholders and it allows them to

decide on issues that are their responsibility pursuant to the Companies Act and to the company's statute.

Shareholders Meetings

In companies based on partnerships, i.e. in a general partnership (j.t.d.), limited partnership (k.d.) and the association based on common economic interest (GIU) the frequency of partners' meetings depends on the nature of the business the company and the company's articles of association, or the agreement on the establishment for the association based on common economic interest (GIU).

Companies based on capital, the limited liability company (d.o.o.) and the joint-stock company (d.d.), are both required by law to have a body which consists of the company members - a general meeting, where all the members participate in deciding on issues of importance for the company. However, the law does not proscribe the frequency of their meetings, leaving it open for each company to define this in detail in the company's articles of association. Usually, the meetings are held annually. The responsibilities of the general meeting are set out in the articles of association (d.o.o.) or statute (d.d.), and the decisions are generally taken by a simple majority of votes.

Decisions Reserved to the Shareholders

The Companies Act explicitly requires that certain decisions must always be reserved for the company members. These are for limited liability companies (d.o.o.) decisions regarding the company's financial reports, use of profit, cover of losses, return of additional payments in money to the members, election and recall of management, putting a request for compensation of damages against members of the management and the supervisory boards and their deputies, as well as deciding on who will represent the company before court if neither the members of the management nor the supervisory board are able to, and (only within the first 2 years from the company's foundation) regarding signing or changing contracts with which the company will acquire in permanent possession of things and rights worth over 1/5 of the company's initial capital.

In a joint-stock company (d.d.) the following decisions are reserved for the shareholders: election, recall and dismissal of the supervisory board members, use of profit, issuance of a letter of release for the members of the management and of the supervisory board, appointment of auditors and special auditors, changing the initial capital, terminating the company, waiving the claims for damages, putting a request for compensation of damages against shareholders and members of the management board, continuation of the company, mergers and consolidation, joining another company, transfer of property, and changing the type of company.

Other issues can also be reserved for the general meeting, if so stipulated in the company's articles of association/statute.

Minimum Numbers of Board Meetings/Year

There is no law regulating the (minimum) number of board meetings per year for both the limited liability company (d.o.o.) and the joint-stock company (d.d.). However, this matter can be regulated in the company's articles of association/statute.

Changing the By-Laws

The procedure for changing the articles of association or the agreement on the establishment of companies based on partnership is regulated by these same documents.

For companies based on capital the Companies Act stipulates the procedure for changing the basic establishment document - the articles of association and the statute.

The articles of association in a limited liability company (d.o.o.) can be changed only by a decision of its members, in the majority of cases the general meeting. This decision must be either in a form of a solemnized act or a private act notarized with a public notary, and the decision does not have effect until it is entered in the Court registry. This decision can be voted by a majority of the

given votes, or by even a bigger majority or fulfillment of other conditions if so envisaged in the articles of association.

The statute in the joint-stock company (d.d.) can be changed by the decision of the general meeting. To reach such a decision shareholders votes that represent minimally 3/4 of the initial capital present on that general meeting have to vote for, or by even a bigger majority or fulfillment of other conditions if so envisaged in the statute.

INCREASING THE SHARE CAPITAL

REDUCING THE SHARE CAPITAL

For both increasing and reducing the initial capital in a limited liability company (d.o.o.) the members have to reach a decision to change the articles of association. The initial capital can be increased by increasing the amount of old or by the payment of new share contribution/s, as well as by contributing the company's reserves and profit into the founding capital. Every lowering of the amount of the initial capital stated in the articles of association, whether it is the return of the share contributions to the members, or lowering of the par value of the share contributions or the members' complete/partial release of their obligation to pay the entire amount of the share contribution/s, is considered a reduction of the founding capital. The decision on reducing the initial capital must in itself contain the extent and purpose of the reduction, as well as a description of the reduction procedure. The amount of the initial capital can never be decreased below HRK 20.000,00.

Likewise, for increasing or decreasing the amount of the initial capital in a joint-stock company (d.d.) the shareholders at a general meeting have to reach a decision to change the statute, by votes that represent minimally 3/4 of the initial capital present on that general meeting, or if so envisaged in the statute, by a larger majority or with the fulfillment of certain conditions. The decision to reduce the initial capital must in itself contain the explanation of the purpose of the reduction.

ASSIGNMENT OF INTERESTS (transfer of shares or participation)

The Companies Act stipulates that the assignment of shares in companies based on partnerships, i.e. in the general partnership (j.t.d.), limited partnership (k.d.) and the association based on common economic interest (GIU) can only be done with the consent of all the other members of the company.

In the companies based on capital the share contributions/shares can generally be transferred freely. In a limited liability company (d.o.o.) share contributions are freely transferable and inheritable, unless arranged differently in the articles of association. But the contract regarding the transferring of the share contributions must be either in a form of a solemnized act or a private act notarized with a public notary. As previously mentioned, in a joint-stock company (d.d.) the members - shareholders invest in initial capital divided into shares that, as a rule, are freely negotiable. Shares may be registered shares, which can be transferred by endorsement or assignment –cession, or bearer shares, which are transferred when handed over.

AUTHORITY TO BIND THE COMPANY; CHANGING THE COMPANY'S OFFICIAL SIGNATURES

In a general partnership (j.t.d.) the management of the company is the responsibility of all partners and each partner is authorized to represent the company, unless his/her authority is explicitly excluded in the articles of association. Also, the articles of association may stipulate that only one or several partners are authorized to represent the company. In a limited partnership (k.d.) only the general partners can represent the company, and in an association based on common economic interest (GIU) only a member of the management can represent the company, or if there are several members of the management board each member is authorized for representation.

In a limited liability company (d.o.o.) and in a joint-stock company (d.d.) the management board is responsible for company representation.

All companies have to be registered with a Court register of the competent Commercial court. As part of the application for registration the persons

authorized to represent the company must provide signature samples. Upon changing the persons authorized to represent the company an application for registering this change has to be submitted to the Court registry, again with signature samples of new persons authorized to represent the company.

CHANGING THE CORPORATE PURPOSE

The scope of business activities of every company is stated in its founding document, thus this document has to be changed in order to change the scope of business activities of the company. For information regarding the procedure for changing the by-laws for each of the company types please refer to section of the text "Changing the by-laws". For performing most of the business activities no special licenses or permits are needed, but for activities where such permits are required by law the Court register will not carry out applications requesting these activities to be included in the scope of business without them.

Decision Making Bodies

In companies based on partnerships the business is managed as follows - by all partners, with each partner being authorized to represent the company in the general partnership (j.t.d.), by general partners in the limited partnership (k.d.), and in the association based on common economic interest (GIU) by the management board of the association. Business management and authority to reach decisions can be laid down in detail in the articles of association or in the agreement on the establishment.

In limited liability companies (d.o.o.) the management board manages the business of the company, according to the articles of association, the decisions of the general meeting and the statutory board (if the company has one). The same is true in a joint-stock company (d.d.) where the management board manages the business of the company, according to the statute, the decisions of the general meeting and the statutory board. In both a limited liability company (d.o.o.) and a joint-stock company (d.d.) certain issues are always decided by the general meeting, as described in "Decisions reserved to the shareholders".

Appointment of Directors

In limited liability companies (d.o.o.) the directors-members of the management board are appointed by the decision of the company members, unless the articles of association provide that some other body within the company, or a certain public body shall appoint the directors.

The supervisory board of the joint-stock company (d.d.) appoints the directors-members of the management board, as well as the chair of the management board.

Powers of Directors

In a limited liability company (d.o.o.) the director/s manage the business of the company, according to the articles of association, the decisions of the general meeting and the statutory board (if the company has one). If the management board consists of several persons, and it is not prescribed differently in the articles of association, all directors undertake actions together. The same is true in a joint-stock company where the director/s manage the business of the company according to the statute, the decisions of the general meeting and the statutory board, and if the management board consists of several persons, and it is not prescribed differently in the statute, directors undertake actions jointly.

Minimum Number of Independent Directors

In both the limited liability company (d.o.o.) and the joint-stock company (d.d.) there must be at least one director-member of the management board.

Term of Appointment

The Companies Act doesn't mention how long the term of appointment of the management board in a limited liability company (d.o.o.) must be. This matter can therefore be arranged in the articles of association, and there is no restriction on the directors being appointed for a period of time but also indefinitely, i.e. until their recall.

In a joint-stock company (d.d.) members of a management board and the chair are appointed by the supervisory board for a maximum period of five years, with a possibility of re-appointment. Members of the supervisory board are elected by the general meeting for a maximum term of office of four years, and they can be re-elected.

Range of Directors' Liabilities

- Does law/regulation require a specific agreement - or disclosure - for determining the remuneration of directors?
- bAny limit?

In a joint-stock company (d.d.) and a limited liability company (d.o.o.) members of the management board have an obligation to manage the company business with the diligence of an orderly and a conscientious businessman. Should they violate this obligation they are debtors liable jointly and severely to compensate the company's damages. In case of lawsuit the burden of proof for proving they acted with the diligence of an orderly and a conscientious businessman is on them.

Annual Accounts Financial and Operation Results: Duties and Liabilities

In a limited liability company (d.o.o.) and a joint-stock company (d.d.) the management board is responsible for the preparation of annual financial reports, which are annually presented to the general meeting. The way these reports were made, whether they reflect the actual state in the company's books and give a realistic conception of the financial state of the company, is inspected by the supervisory board in a joint-stock company (d.d.), and by the supervisory board in a limited liability company (d.o.o.) if there is one.

croatia | **tax law**

The Croatian tax system, although specific in its foundation and adjusted to the needs and the circumstances of the economic system of the Republic of Croatia, is comparable to the tax systems of the members of EU, and is founded on the combination of direct and indirect taxes. Since entrepreneurial and market freedom is the profound orientation of economic development, the equality of the legal position in the market is guaranteed by the Constitution of the Republic of Croatia to all entrepreneurs, domestic as well as foreign ones and tax regulation is directed to achieving equality of tax treatment as well as to encouraging of the economic development of the country. Last changes of the tax legislation from the end of the year 2004 (Official Gazette no. 177/04 from 15th of December 2004) when the Act on income tax as well as the Act on company tax were modified, were oriented to reduce the tax burden, although the changes were not till the end and consistently conducted. In the Republic of Croatia the tax system comprises the following taxes:

- Company tax,
- Income tax,
- Value added tax,
- Special duties (for petroleum and petroleum products, tobacco-products, alcohol, nonalcoholic drinks, beer, coffee, passenger cars and other motor vehicles, vessels and airplanes, luxury products, tax on premium for the car insurance),
- Property tax,
- Compensation for organizing games of chance,
- County and municipal/town tax as an income for the local and regional self-government.

The basic principles of the tax system and of the mutual rights and obligations of taxpayers and of tax bodies are stipulated in the General Tax Act that was published in the Official Gazette 127/00 and that has been in force since 1st of January 2001. the following is a review of the most important taxes:

Company Tax

Company Tax Act was published in the Official Gazette 177/05 and has been in force since 1st of January 2005.

TAXPAYERS

Taxpayer is a company or other legal entity or physical person (craftsman, free professions as well as physical persons that earn income and that by their own choice become taxpayers of the company tax) that is registered in the Republic of Croatia (resident) or home business unit of a foreign entrepreneur (non-resident) that performs business activity independently, permanently and for the purpose of gaining of profit or other estimable benefits.

TAX BASE, TAX RATE AND TAX PERIOD

The Tax base for calculating company tax is determined by the difference between receipts and payments before taxation according to the accounting rules, augmented as well as diminished according to the provisions of the Law. The Tax base for the resident taxpayer comprises of the profit made in inlands or abroad, while the tax base for non-resident comprises of the profit made only in inlands. The Tax rate of company tax is unique and amounts to 20% on the established tax base. As a rule the Tax period for which company tax is determined is a calendar year.

TAX EXEMPTIONS, TAX RELIEFS AND INCENTIVES

Taxpayers have a right when calculating company tax to use legal tax reliefs, tax exemptions and incentives that the Law regulates on the several grounds.

1. Performing activities on the territory of special state care Taxpayers that perform activity on the territory of special state care as well as in the high-country areas of the state, and that have employed at least 5 workers permanently and from which at least 50% have residence or habitation in that area, are paying company tax in the time period of 10 years with the following tax exemptions and relief: in areas that are entering the first group of territories

of special state care no tax is paid in the time period of 10 years, in areas that are entering the second group of territories of special state care tax is paid in the amount of 25% of the compulsory tax rate, in areas that are entering the third group of territories of special state care tax is paid in the amount of 75% of the compulsory tax rate.

2. Performing activities in the free zones Taxpayers that are beneficiaries of the free zone according to the Free Zone Act pay company act in the amount of 50% of the compulsory tax rate.

Beneficiaries of the free zone that are constructing or participating in construction works in the zone by investing more than 1.000.000,00 kn, are exempted from company tax in the next 5 years of doing business in the zone, but at maximum up to the amount of the investment funds. The government of the Republic of Croatia may exceptionally augment the scope of reliefs in the specific free zones that are of an exceptional significance to the economy of the Republic of Croatia.

3. Performing research-development activities Taxpayers that are performing exclusively research-development activities are exempted from paying company tax.

4. Investment incentives Diminishing of the tax rate as an investment incentive is grounded on profit that is realized from investments in the amounts as specified by Law. The Law stipulates tax reliefs in the ten-year time period and that from the total exemption from the tax payment till the tax payment according to the tax rates of 3%, 7% or 10% depending of the height of investments.

5. Professional rehabilitation and employing of disabled persons Taxpayers founded according to the special acts for the purpose of performing of the professional rehabilitation and/or for the purpose of employing of disabled persons pay company tax in the amount of 25% of the compulsory tax rate.

Inclusion of the tax paid abroad. When the taxpayer has earned income or profit abroad and there he paid the same kind of tax, the tax paid abroad can be

included in the amount of the home-tax at maximum up to the amount of the company tax that he would have paid for that income in the Republic of Croatia. Withholding tax According to the Company Tax Act, withholding tax is a tax by which tax is imposed on the profit that non-resident realizes in the Republic of Croatia. The Taxpayer of withholding tax is a payer, and the tax base makes brut amount of the compensation that the home-payer pays to the non-resident receiver. Withholding tax is paid on interest (except on interest for credits to buy goods that the taxpayer shall use for further performing of the business as well as on the credits that the foreign bank gives, as well as on the interest to the carriers of state and corporation bonds) as well as on the author's and other intellectual property rights.

Income Tax

Income Tax Act was published in the Official Gazette 177/04 and has been in force since 1st of January 2005.

THE TAXPAYER

The Taxpayer of the income tax is a physical person (resident and non-resident) who realizes income. Taxpayer is an heir for all the tax obligations according to this Act that a testator had realized before his death, and is also an heir for the income that would come from the inheritable sources of the income.

INCOME

Income that is taxed according to the Income Tax Act is the difference between the acceptances from the unindependent work, independent activity, property and property rights, capital, insurance as well as other acceptances that the taxpayer has realized in the tax period, and tax-accepted expenditures that were created in that period.

ACCEPTANCES THAT ARE NOT CONSIDERED INCOME AS WELL AS ACCEPTANCES ON WHICH THERE IS NO TAX LIABILITY

According to the Income Tax Act, by income are not considered acceptances from interests: on savings, on deposits on the accounts that are realized by banks and other financial institutions; from dividends and from shares in the profit of the company; acceptances from interest on securities; acceptances from alienation of financial property if that is not the activity of the taxpayer; direct payments of the insurance premium for supplemental purchase of part of the pension; pensions of residents realized abroad; family pensions nominees are children, as well as according to the special rules, state rewards, acceptances for which physical persons do not offer reciprocal favors (subventions, allowances, inheritance and gifts, compensations etc.) Law lists acceptances on which income tax is not being paid, and that are compensations of salaries to the workers for the period that they have not been on work for the reason that is specified by special rules (military service, civil protection), rewards to the pupils and students, compensation of damages for work-connected injury according to the judgment and others.

PERSONAL EXEMPTIONS

Personal exemptions the Law stipulates personal exemptions from paying income tax for diplomatic bosses, diplomatic representatives as well as for non-residents employed in foreign diplomatic missions and consulates, for officials of the UN and of their Agencies as well as for honorary foreign consular officials.

TAX BASE, TAX RATE AND TAX PERIOD

The Tax base is the difference between the total income of the taxpayer on all grounds that he realized in his home country and abroad (resident) i.e. only at home country (non-resident) and personal deductions and/or transferred loss according to the Income Tax Act. If domestic taxpayer realizes part of his income abroad and if he on that way realized income pays tax abroad, the taxpayer has a right to include the paid tax in the tax obligation according to the domestic law. The amount of the personal deduction is determined by 1.600,00 kn per month, and may be augmented on the grounds of support of a member of

immediate family, costs for medical services, basic health insurance, purchase of the first living premises or adaptation of the same, lease of the apartment, with a restriction of at most 12.000,00 kn per year. Tax period amounts to one calendar year, except in cases of death of the taxpayer or in cases of change of status of the resident/non-resident during the year. The Law stipulates the differentiated rate of the company tax, and the rates are specified as follows: 15 % of tax base until the double amount of the basic personal deduction (until 3.200,0 kn per month i.e. 38.400,00 kn per year), 25% on the difference of the tax base between double and fivefold amount of the basic personal deduction (3.200,00 - 8.000,00 kn per month i.e. 38.400,00 - 96.000,00 kn per year), 35% on the difference of the tax base from the amount of the fivefold till the amount of the fourteen-fold amount of the basic personal deduction (8.000,00 - 22.400,00 kn per month i.e. 96.000,00 - 268.800,00 kn per year), 45% on the tax base above fourteen-fold amount of the basic personal deduction (22.401,00 kn per month i.e. 268.801,00 kn per year).

VALUE ADDED TAX (VAT)

Value Added Tax Act was published in the Official Gazette 47/95, and amended in the Official Gazette 165/98, 105/99, 54/00 and 73/00 and has been in force since 1st of January 1998.

SUBJECT OF TAXATION AND TAXPAYER

VAT is paid on the deliveries of all types of goods and of all types of services done in Croatia with compensation that entrepreneur does whilst performing his duties, on the own consumption and on deliveries of goods and services according to the special provisions of the Law, as well as on the import of the goods in Croatia. By delivery of goods the Law means exchange of goods as well. The Taxpayer of the VAT is: entrepreneur that delivers goods or performs services, importer, every issuer of the invoice according to the Value Added Tax Act.

TAX BASE, TAX RATE AND TAX PERIOD

The Tax base is a compensation for the delivered goods or performed services. Tax base at the import comprises of tariff base augmented for the duty, other fees and special taxes. Tax period is a calendar year, and an accounting period is calculated from the first day until the last day of the month (exceptionally for small entrepreneurs accounting period is calculated quarterly). VAT is paid according to the unique rate of 22%. For the traffic of certain goods and services the Law stipulates zero tax rate (0% for: bread, milk, books, specific medicaments, medical implants, science magazines, services of public movie presentations and services of organized stay that are paid by the foreign remittance).

TAX CALCULATION

The Taxpayer is obliged to calculate VAT according to issued invoices for the delivered goods and performed services in the accounting period, no matter whether the issued invoice was paid in the same period or not. Likewise, the taxpayer is authorized to deduct input tax on all incoming invoices that he received in the accounting period, no matter whether he really paid for them or not. Withdrawing from that principle are taxpayers that are obliged to pay income tax, and who calculate VAT according to the paid invoices, but as well who realize the right to tax deduction only once the payment of the incoming invoice is made.

DEDUCTION OF THE INPUT TAX AND THE RETURN OF THE DIFFERENCE

Taxpayers who are obliged to pay VAT have a right to deduct input tax by the incoming invoices on which tax had been calculated. The Taxpayer who in the accounting period has a right to deduct input tax by the incoming invoices whose amount is higher than his tax obligation by the issued invoices, has a right to return that difference in the time limit of 15 days from the day of handing in of the tax return.

TAX EXEMPTIONS

The Law as well stipulates tax exemptions for certain types of services in Croatia (lease of accommodation units, services and deliveries of goods of the banks and other financial institutions, of doctors, dentists and other medical activities, institutions for social care, schools and other related institutions, institutions in culture). VAT is not paid on the traffic of gold, home and foreign means of payment, money claims, securities and shares in companies. Also specific types of import are exempted from the payment of VAT (temporary import, import of the personal baggage, import of commercial material as well as of samples, import of the used domestic and personal things for the purpose of moving etc.). Rules on VAT determine the presumption that for specified services delivered in Croatia to foreign recipients of services, the place of creation of the service is the foreign country i.e. seat or residence of the receiver of the services. On that ground those kinds of services are exempted from VAT. The respective services with the exemption are: transfer, cession and usage of copyrights, patents, licenses and similar rights, marketing services, services of engineers, lawyers, revisers, accountants, court interpreters, translators and other counseling services, services of electronic data processing, cession of information including know-how; bank services, insurances and reinsurances, cession of personnel, renting of movable goods, except transport vehicles and except all services of intervention concerning all the above mentioned services.

Property Tax

The Act on capital transfer tax was published in the Official Gazette 69/97, and has been in force since 12th of July 1997. Subject of taxation according to the Act on capital transfer tax is transfer of property which includes every acquiring of the ownership of real-estate (by purchase, exchange, inheritance, donation, including and excluding of the real-estate from the commercial company, acquiring of the real-estate in the liquidation or bankruptcy proceedings and/or on the grounds of the court decision or other ways of obtaining of the real-estate) in the Republic of Croatia. By real-estate this Law considers land and building as well. By transfer of real-estate according to the Act on capital

transfer tax is not considered acquisition of newly-built buildings that are taxed according to the Value Added Tax Act.

TAXPAYER, TAX BASE AND TAX RATE

The Taxpayer of the capital transfer tax is the acquirer of the real-estate. Capital transfer tax is paid at the rate of 5% on the tax base that makes commercial value of the real-estate in the moment of acquisition.

TAX EXEMPTIONS

The Law stipulates many tax exemptions for capital transfer tax. Exempt from the tax are Republic of Croatia, units of local government and self-government, bodies of public authority, public institutions, foundations, humanitarian NGO-s and others; diplomatic and consular missions under the condition of reciprocity, acquirers of the real-estate in the procedure of return of the seized property; displaced persons and refugees that are acquiring the real-estate by exchanging of their own real-estate abroad, bearers of the tenancy rights or protected tenants, acquirers on the grounds of regulations on the conversion of public ownership; acquirers that are in the first inheritance row in respect to the carrier of the ownership; acquirers that are acquiring the real-estate on the grounds of cancellation of co-ownership or by division. When the real-estate is being contributed to the commercial company in the name of inaugural deposit or in the name of increasing of the share capital, according to the Companies Act, as well as in the procedures of merger of companies, no capital transfer tax is being paid.

OCCURRENCE OF THE TAX OBLIGATION AND PAYMENT OF TAX

The Tax obligation emerges in the moment of signing of the contract or of legal document by which the real-estate is being acquired. The Taxpayer is obliged to report the occurrence of the tax obligation to the Tax authority in the time limit of 30 days from the moment of its creation, as well as to pay the tax in the time limit of 15 days from the day on which the decision on determination of the tax obligation had been delivered to him. Transfer of the ownership right on the real-estate can be registered in the Land Registry even before the capital transfer tax is paid.

Special Duties

Act on special duty concerning petroleum products Act on special duty concerning tobacco-products, Act on special duty concerning beer, Act on special duty concerning non-alcoholic drinks Act on special duty concerning alcohol, Act on special duty concerning passenger cars and other motor vehicles, vessels and airplanes, Act on special duty concerning coffee, Act on special duty concerning luxury products (NN 105/99).

SUBJECT OF TAXATION, TAXPAYER AND TAX BASE

Special duties (excise duties) are paid on the production and traffic of special products (such as petroleum products, alcohol, beer, tobacco products, coffee, luxury products, non-alcoholic drinks, motor cars). The Taxpayer is a legal entity or a physical person – producer and/or importer of those kinds of products. Tax base is the sale value – sale price of the product and is determined in the respect to the quantity of the produced or imported product.

Act on Financing of the Local Government Units and of the Self-Government

Act on financing of the local government units and of the self-government stipulates the sources of revenues of those bodies and part of them as well make taxes that are regulated by that Law.

County taxes are: inheritance and gift tax, vehicle tax, vessels tax, tax on organizing fun and sport manifestations. Municipal/town taxes are:consumption tax, tax on weekend houses, tax on the name of the company, advertising tax, surtax on the income tax, tax on idle lands, tax on non-usage of the entrepreneurial real-estate, tax on non-constructed building area, tax on usage of public lands.

croatia | **foreign investment**

Foreign investors have the same rights and obligations as native investors.

Foreign investors may invest in the Republic of Croatia on a capital basis (by starting a company and by investing in the share capital or by investing into an existing company by increasing the share capital) as well as on a credit basis.

By investing capital the foreign investor submits to the legal regime of the Croatian Companies Act, but it is not necessary to have special permissions or consents for the investment.

If a foreign investor invests on a credit basis, he must register the loan with the Croatian National Bank.

The foreign investor is guaranteed that after he has paid company tax based on the yearly tax return required by the Company Tax Act, he is free to take out his profit and his invested capital.

Investment by foreign investors is not limited by reciprocity requirements.

Foreign Personnel

The rules governing foreigners working and staying in the Republic of Croatia are set out in the Law on Foreigners (Official Gazette no. 109/03). Under this Law a foreigners may stay up to 90 days (a temporary stay) or have a permanent stay.

For the purpose of carrying out business, the foreigner must have a temporary stay granted.

A Foreigner may work in the Republic of Croatia on the basis of a work or business permit.

A work permit may be issued to a foreigner employed in a Croatian company for a fixed period of time, until the date of termination of the employment contract (or other corresponding contract on the basis of which the foreigner is doing business) but for a maximum period of 2 years. A business permit may be issued to a foreigner who has a registered craft or is a self-employed person or is a founder or a majority shareholder in a commercial company for a maximum period 2 years.

The Ministry of the Internal Affairs of the Republic of Croatia is responsible for the issue of work and business permits.

Conclusion

Entrepreneurial and commercial freedoms are the basis of the economic system of the Republic of Croatia. The laws of the Republic of Croatia secures for all investors (both native and foreign an equal position in the economic market.

The Republic of Croatia has agreed to be bound by international agreements that were signed by the ex. Yugoslavia, including agreements concerning tax questions, while at the same time the Republic of Croatia itself has signed many bilateral and multilateral agreements to avoid double taxation.

Our review of Croatian tax regulations above gives an insight into the basics of the Croatian tax system and gives answers to the most fundamental questions about the tax regime in the Republic of Croatia.

croatia | **labor law**

Employment Contracts

EMPLOYMENT

Labor relationship is based on an employment contract. If the employer concludes with the worker contract for the purpose of performing the business that concerning the nature and type of work as well as concerning the authorities of the employer has characteristics of the work for which labor relationship is usually being established, then it is being presumed that the employer has concluded with the worker employment contract, unless the employer does not prove the opposite.

FORM OF THE EMPLOYMENT CONTRACT

Employment contracts have to be made in writing The failure of the contracting parties to make the employment contract in writing does not affect the existence and validity of the contract. When an employment contract has not been made in writing the employer is obliged to hand in to the worker, before the beginning of work, a written certification that the contract has been created. Where the employer has not, before the beginning of the work, entered into a written employment contract with the worker or not issued a written certification that the contract has been created, it is deemed that he has entered into and employment contract with the worker for an indefinite period. The employer is obliged to hand in to the worker a sample of registration at the pension and health insurance within 15 days from the day of signing of the employment contract or from the day on which certification that the contract has been signed was handed to the worker, i.e. from the beginning of work.

OBLIGATORY CONTENT OF THE WRITTEN EMPLOYMENT CONTRACT

Employment contracts must contain the following data about: parties and their respective residences i.e. seat, place of work, and if there is no permanent or principal place of work, then a note that the work is being performed at different places, name, nature or character of work on which the worker is being employed or a short list or description of work, date of the beginning of work, estimated duration of contract in the case of employment contract for a definite period of time, duration of paid annual leave to which the worker is entitled, and if this information cannot be given at the moment of signing of the contract, i.e. at the moment of issue of the certification, then the ways by which the annual leave shall be determined, notice periods and if this information cannot be given at the moment of signing of the contract, i.e. at the moment of issue of the certification, then the ways by which the notice periods shall be determined, basic salary, wage supplements as well as periods of the payment of the earnings to which the worker is entitled, duration of the ordinary working day or a week.

Instead of information from f, g, h, and i, (these references are not in this documents)employment contract i.e. certification can refer to respective laws, and other acts as well as to the collective agreements or to rule books that deal with those kind of questions.

EMPLOYMENT CONTRACT FOR AN INDEFINITE PERIOD

An employment contract is made for an indefinite period, unless the Law specifies differently. An employment contract for an indefinite period binds the parties until the moment at which one of the parties cancels it or until it terminates in some other way as specified by the Law. If employment contract does not specify the time for which it has been made, it is deemed that the contract has been made for an indefinite period.

EMPLOYMENT CONTRACT FOR A DEFINITE PERIOD OF TIME

An employment contract can, exceptionally, be made for a definite period of time whose termination is determined in advance by objective reasons that are justified by the time limit, by the execution of the specific work or by the occurring of a specific event. The employer must not enter into one or more consecutive employment contracts for a definite period of time on the grounds of which the labor relationship on the same jobs is being initiated for the uninterrupted time period longer than three years, except in the case of exchange of temporary absent worker or if it is allowed by law or by collective agreements. A work stoppage of shorter than two months is not deemed an interruption of the time period of three years. An employment contract for a definite period of time terminates at the expiration of time specified in that contract. If an employment contract for a definite period of time is concluded contrary to the provisions of the Law or if the worker continues to work with the same employer after the expiration of time for which the contract has been made, it is deemed that the worker has concluded an employment contract for an indefinite period. The employer is obliged to inform workers who are employed by him of the grounds for a contract for a definite period of time and about the jobs for which those workers could sign with the same employer an employment contract for an indefinite period, and is also obliged to enable them to improve and educate themselves under the same conditions as well as the workers who have signed employment contracts for an indefinite period.

WAYS TO TERMINATE EMPLOYMENT CONTRACTS

An employment contract terminates on the death of the worker, by the expiration of the time for which an employment contract for a definite period of time was made, when a worker turns 65 years of age and 20 years of service, if the employer and worker do not decide differently, by delivery of the legally valid decision on the pension because of a general inability to work, by agreement of the worker and employer, by notice of dismissal, by the decision of a competent court. The employer may cancel an employment contract with the prescribed or agreed term of notice (termination of employment contract), if he has a justified reason for that, in the case when there is no need anymore for performing of the specific job because of the economic, technical or organizational reasons

(redundancy termination), if the worker is not able to fully execute his obligations of the labor relationship because of the special permanent characteristics or abilities (dismissal), if the worker violates obligations of the labor relationship (dismissal on the ground of misconduct). Employers and workers have a justified reason for termination of the employment contract made for an indefinite or for a definite period of time, without an obligation to respect the prescribed or agreed term of notice (summary termination), if for a reason of especially gross negligence of duty or for the reason of some other especially important fact, with all due respect of all pertaining circumstances and interests of the both contracting parties, the continuation of the labor relationship is no longer possible. An employment contract can be summarily terminated only in the time limit of 15 days from the day on which the terminating party becomes aware of the fact on which the summary termination is based.

If the employer terminates an employment contract, and for the validity of the termination the Law asks for a justified reason, he must prove the existence of the justified reason for the termination of employment contract. The worker is obliged to prove the existence of the justified reason for termination only if the employment contract is being terminated summarily. The duration of the term of notice is determined by the length of time which worker has spent with the same employer and amounts to between 2 weeks (for work shorter than 1 year) and 3 months (for work in an unlimited duration of 20 years).

COSTS OF DISMISSAL AND WRONGFUL DISMISSAL

The worker whose employment contract is terminated after 2 years of the uninterrupted work, unless it is being terminated for the reason that is conditioned by the behavior of the worker, has a right to a severance payment the amount of which is determined by the length of the previous uninterrupted duration of the labor relationship with that employer. Severance must not be agreed upon or specified for an amount that represents less that one-third of the average monthly salary, which the worker earned in the 3 months prior to the termination of the employment contract, for each finished working year with the same employer. If the Law, a collective agreement or the employment contract do not specify differently, the total amount of ransom cannot be higher

than 6 average month salaries which the worker has earned in the three months prior to the termination of the employment contract. If the court decides that the termination is not allowed, and it is not acceptable to the worker to continue the labor relationship, the court shall on the request of the worker determine the day of the termination of the labor relationship as well as award to the worker compensation of damages amount ing to at least 3 and at most 18 average months salaries of that worker paid in the previous 3 months, depending on the duration of the labor relationship, age and obligations of support that burden the worker. The worker may request through court procedures payment of all of unpaid salaries from the moment of termination of the employment contract. If the court decides the termination of the employment contract is not justified and accepts a request for the payment of the unpaid salaries, they will be paid with the interest, plus the court costs and the costs of representation which can significantly increase the costs of the unfair dismissal.

EMPLOYMENT CONTRACTS FOR DIRECTORS

There is no special regime envisaged for the managerial contracts. It is possible to include the managerial clauses in the employment contract or to make a special managerial contract next to the employment contract.

Employees' Representatives and Union Representation

WORKERS' COUNCIL

Workers that are employed with the employer, who employs a minimum of 20 workers, except workers that are employed in the bodies of the state administration, have a right to participate in the decision making process on questions relating to their economic and social rights and interests, in the ways and under conditions that are specified by Law. Workers have a right to choose by free and direct elections, by secret ballot, one or more of their representatives (in further text; Workers' council) that shall represent them with the employer in the protection and promotion of their rights and interests. The procedure for the creation of a workers' council is initiated by the proposal of the labor union or by the proposal of at least 10% of workers that are employed by the specific

employer. The minimum number of the members of the workers' council is determined by the number of workers. A Workers' council is elected for the electoral period of 3 years. The employer is obliged to inform the workers' council at least every 3 months about the condition and the results of the business, about the development plans and about their influence on the economic and social position of the workers, about changes in salaries, about scope and reasons for introducing overtime work, about the number of workers that are employed for a definite period of time and about the number of workers that are employed on the grounds of the contracts on the detached places of work, as well as about the reasons for their employment, about protection and security at work and about the measures taken in order to improve working conditions, as well as about other questions that are specially important for the economic and social position of the workers. Before the making of any decision that is important for the position of the workers, the employer must take advice from the workers' council. By important decisions one considers especially decisions on passing the labor relations by-laws, on the employment plan, on the transferal and on notice of dismissal, on expected legal, economic and social consequences that may turn out for the workers in the cases of transferring of the contract to a new employer, on measures concerning health and security at work, on the introduction of new technologies as well as on the change of the organization and of ways of work, on annual leaves, on the schedule of the working time, on work by night, on compensations for inventions and on technical improvements, on passing of a Redundancy Program as well as on all other decisions for which the Law or collective agreement stipulate that the participation of the workers' council is obligatory. The employer may only with the previous consent of the workers' council bring a decision about a notice of dismissal to the members of the workers' council, on the notice of dismissal to the candidate for the member of the workers' council that has not been elected, on the notice of dismissal to the member of the electoral board, all for the period of 3 months after the proclamation of the election results, on the notice of dismissal to the worker that has diminished working ability or direct danger from disability, on the notice of dismissal to the worker that is older than 60 years of age (man) i.e. 50 years of age (woman), on the notice of dismissal to the representative of workers in the supervisory board, on the incorporation of persons to whom it is prohibited by the Law to terminate the employment contract in the Redundancy Program, on the collection, treatment and delivery

to the third persons of information about the workers, on the appointment of the person that is authorized to supervise whether the personal information of the workers are collected, treated and delivered to the third persons in accordance with the provisions of the Law.

LABOR UNIONS

Employers have the right, indiscriminately, and according to their own free choice, to establish an employers' association and to be members of such an association, subject only to such requirements which may be prescribed by statute or by-laws of that association. Activities of an association shall not be prohibited, and an association cannot be disbanded by virtue of an act of executive authorities. Labor unions are independently deciding upon the ways of their representation before the employer. Labor unions with members that are employed with the certain employers may appoint or choose one or more union representatives that are going to represent them before an employer. Union representatives have the right to protect and promote the rights and interests of the members of labor unions before an employer. It is by law prohibited to terminate an employment contract of a union representative without the consent of the labor union, during his duty and 6 months after the termination of that duty, nor is it possible to transfer him to another place of work or in some other way to put him in an unfavorable position in respect to other workers.

Collective Bargaining Agreements

A collective agreement regulates the rights and obligations of parties who are signatories thereto, and may contain legal rules which regulate the conclusion of the agreement, the substance and termination of contracts of employment, issues related to an employees' council, social security issues, and other issues originating from or related to employment. Legal rules contained in the collective agreement shall be directly applicable and binding on all persons who are, in accordance with the Labor Act, subject to the collective agreement. The collective agreement may contain rules related to collective bargaining procedures and to the composition and methods of work of bodies vested with the authority for the peaceful settlement of collective labor disputes. Parties to

a collective agreement may be one or more employers, an employers' association, or a higher level employers' association on one side, and a trade union or a higher level trade union association on the other side, which are, in the course of negotiating a collective agreement, willing and able to use pressure to protect and promote the interests of their members. A collective agreement shall be binding on all persons signatories thereto, and all persons who, at the time of closing such an agreement, were or subsequently became members of the association which is a party to the collective agreement. A collective agreement shall be binding on all persons who have acceded to the collective agreement and all persons who have subsequently become members of the association which has acceded to the collective agreement. Personal employment contracts must have contents that comply with the standards that are set in the collective agreements.

Wages and Other Type of Compensation

CLASSES OF WAGES, MINIMUM SALARY

The employer who is bound by a collective agreement may not calculate and pay to his workers a salary that is lower than the amount that is specified in the collective agreement. When foundations and measures for payment of salary are not being stipulated by the collective agreement, the employer who employs more than 20 workers is obliged to stipulate them in the labor relations by-laws. If salary is not determined in such a way, and an employment contract does not give enough information by which the salary could be determined, the employer is obliged to pay to the worker a fair salary. A fair salary is considered to be a salary that is regularly being paid for the same work, and if it is not possible to determine that salary, then the salary that the Court specifies according to the circumstances of the case. The salary is paid, after the job has been done, in gross amount of money. The salary is paid in the time periods that cannot be longer than one month. If the collective agreement or the employment contract does not specify differently, the salary for the previous month is paid at latest until the fifteenth day of the current month. The minimum salary for which the worker must be registered amounts to 2.085,75 Kn.

COST OF OVERTIME HOURS

For aggravated conditions of work, for overtime work, for night work, as well as for work on Sundays, or on holidays or on some other days that are by law determined as non-working days, the worker has a right to receive an increased salary.

Employment Regulations

Labor relations in the Republic of Croatia are regulated by the Labor Act, cleansed text, Official Gazette, No. 137/2004. The employer that employs more than 20 workers is obliged to bring and to announce a labor relations by-law by which salaries, organization of work, measures and procedure for the protection of dignity of workers and other questions of importance to workers that are employed with that employer, are established, if they are not already established by the collective agreement.

Social Security

Obligatory contributions that the employer pays for the worker are: 15% solidarity insurance, 5% savings insurance (Contained in the registered amount of the salary), health insurance: 15%, accident at work insurance: 0,5%, employment contribution: 1,7%(Calculated on the registered amount of the salary).

The employer is obliged to deliver to the worker sample of the registration at the Pension and Health Insurance Fund within 15 days from the day of the signing of the contract or from the day of delivery of the written confirmation that the employment contract has been signed, i.e. from the beginning of work.

Health and Safety

The employer must provide for and maintain machinery, instruments, equipment, tools, its workplace, access to its workplace, as well as organize work in a manner which guarantees the protection of the life and health of employees in accordance with special laws and other regulations and in accordance with the nature of the job being carried out.

The employer must inform the employee of the dangers of the job which is being carried out by the employee. The employer must train the employee for the work in a way which guarantees the protection of the life and health of the employee and prevents accidents from occurring. If the employer assumes the obligation to provide food and lodging for the employee, in the performance of this obligation, he or she must take into account the protection of the life, health and morals of the employee as well as his or her religion. A person under fifteen years of age cannot be employed. A minor cannot be employed doing work which could threaten his or her health, morals, education or development. A woman must not perform especially hard physical work, work under ground or under water or other work that, concerning her psycophysical characteristics, is especially aggravating her life and health. When signing the employment contract, the worker must inform the employer of any illness or of any other circumstance that disables him or that essentially obstructs him in execution of the obligations under the employment contract or that threatens life or health of the persons with whom the worker comes into contact when executing the employment contract. The employer may instruct the worker to have a medical examination in order to establish his health and ability to perform certain works.

Contracting and Outsourcing

If the employer concludes with the worker a contract for the purpose of performing the business that concerning the nature and type of work as well as concerning the authorities of the employer has characteristics of the work for which labor relationship is usually being established, then it is presumed that the employer has concluded with the worker an employment contract, unless the employer does not prove the opposite. It is possible to sign a temporary service contract or to sign a contract on performing of the non dependent work but we are not recommending that kind of establishment for the reason that those contracts are burdened with the contributions almost as much as employment contracts as well as for the reason that the work inspection is unfavorably treating those kind of contracts.

croatia | **real estate**

Types of Ownership (Ownership, Co-Ownership and Joint Ownership)

According to the provisions of the Act on ownership, Property rights and other real rights are real rights that authorize their owner to do with his thing what he pleases as well as to exclude from it all other persons, if it is not contrary to other peoples' rights or to legal restrictions.

Co-ownership exists when more than one person has the same thing in ownership so that each person has a share in the ownership; a share that is computationally determined in proportion to the ownership of that thing in its entirety.

Joint ownership exists when more than one person has ownership in the undivided thing, and the size of each of their property shares is not determined.

This specific type of ownership arises only on the grounds of law (e.g. by legacy proceedings)

Besides the above mentioned types of ownership, one must also mention the possibility of establishing a condominium as the ownership of specific parts of real estate that authorizes the co-owner for whom co-ownership of part of the condominium has been established, to manage this specific part of the real estate instead of all co-owners as well as to execute all proprietary powers and duties as if the specific part of the real estate is in his sole ownership, and that he, if it is not regulated differently, does with that specific part, and with the benefits that arise from the same, as he pleases, as well as being able to exclude all other persons from it.

Land Registers and Cadastres

Everything relevant to the legal status of a parcel of real estate is registered in the land register: real rights on real estates, personal relation of the carriers of the land register rights and different legal facts that influence the legal status of a real estate, as well as the possibility transferring land register rights. The Land registry certificate has the probatory force of a public document and it is considered that the land registry fully and truly reflects the factual and legal status of a parcel of real estate. Because of the discrepancies between the land registry and real status of a parcel of real estate - especially in relation to publicly owned real estates - many land registry right carriers could have been damaged so there was a transition period set up during which the application of trust in the land registry was postponed. This period should have expired on January 1st, 2002 but it was postponed until January 1st, 2007.

The institution of trust in the land register still gives the investor-acquirer legal security that the ownership right- investment acquired from the registered owner will be insured on the assumption that he immediately registers his ownership right on the land register.

Beside the land registers, cadastral institutes also exist in the Republic of Croatia. Real estates and their possessors are recorded in the cadastre (information about possessors from the cadastral books are not relevant for ownership determination). Land registry plots in the cadastre do not always match the land registry plots recorded in the land register, and the recorded possessors in the cadastre do not always match the owners of the plots in the land register. This can present an additional problem when acquiring real estate ownership rights because harmonization of the cadastre state with the state in the land register must be simultaneous with the purchase.

General Assumptions of Acquisition and the Form Needed

General assumptions for real estate ownership rights acquisitions are:

- The capability of the real estate to be the object of ownership rights;
- The ability of a person to be the owner and to obtain the ownership right on a specific object;
- Valid legal ground and the ownership of the seller.

Every legal transaction for real estate ownership acquisition must be in a written form considering that the ground for acquisition can be different legal transactions such as purchase contracts, exchange contracts, gift contracts, life long support contracts etc. Concrete legal transactions for acquisition of ownership rights have to have special requirements stipulated by the law for that kind of a contract and without those special requirements it would not be valid.

In principle, real estate ownership rights are acquired with the registration of ownership of the right in the land register and the expression of the will of the seller intended for the transfer of ownership to a new owner is needed as well. So it can be said that the approval of the owner is needed, but in case he denies the issuance of the expression of will for acquisition of the ownership right for the new owner, it can be replaced with judgment in a civil procedure and that kind of judgment replaces the document for ownership registration.

Encumbrances

Encumbrances on real estates are registered in the land register and the modification of registered real encumbrance is allowed only by agreement with the owner of the real estate. Real encumbrances are based on the legal business of the owner of the real estate that is being burdened or on court decision. There is a possibility that real estate encumbrances of a public nature are based on the law.

The obligation which is the subject-matter of the encumbrance can be transferred together with the burdened real estate, meaning that real encumbrance can not be separated from the burdened real estate. With the transfer of the ownership of the burdened real estate to a different subject, the obligation transfers as well.

In the case of registered rights of pre-emption on behalf of a third party, the owner of the real estate is obliged to offer the real estate to the holder of the pre-emption right under certain conditions giving a reasonable period for accepting the offer. If the pre-emption right holder does not accept the offer for purchase, the owner can sell the real estate to a third party under the same conditions offered to the holder of the pre-emption right.

Real Estate Trading Restrictions

GENERAL

Some kinds of real estates, considering their public purpose, can only be in the ownership of the Republic of Croatia or other persons of public law. Those kinds of real estates are public goods and are divided into two groups. The first are intended for general use (available to everyone- like public transportations, parks and other public surfaces in general use) and others are for public use (intended for rights and duties of the Republic of Croatia, its bodies and offices - like defense objects, military facilities etc.). Civil law subjects can acquire ownership of these kinds of real estates only if their public purpose is annulled in a procedure prescribed by law.

RESTRICTIONS FOR FOREIGN CITIZENS

According to the Croatian Act on ownership and other real rights (Art. 356 par 2; Official Gazette of the Republic of Croatia Num. 91/96, 68/98, 13 7/99, 22/00, 73/00, and 114/01), foreign citizens and legal entities that want to become owners of real estate in the Republic of Croatia other than by inheritance, need to obtain consent from the Minister of Foreign Affairs of the Republic of Croatia issued on the basis of a prior opinion of the Minister of Justice of the Republic of Croatia. Legal transactions intended to acquire real estate ownership rights does not produce the intended legal effects without the required consent.

The consent of the Minister of Foreign Affairs is issued in the form of an administrative act, following a special administrative procedure conducted at the Ministry of Foreign Affairs of the Republic of Croatia; the procedure may be

initiated by the applicant or by an attorney. In the administrative procedure conducted before the Ministry of Foreign Affairs to decide upon the application, reciprocity (mutual relationship) between the Republic of Croatia and the state whose citizen is the applicant will be determined. This particular requirement is met if in the state whose citizen is the applicant, Croatian citizens are recognized as having the right to acquire property. The Ministry of Foreign Affairs collects and examines foreign laws concerning the requirements and the acquisition of ownership by foreign citizens in those states, and applies and interprets them in the procedure it conducts.

There are areas in the Republic of Croatia in which foreign citizens may not acquire ownership of real estates, like the excluded areas (Art. 358 par 1 of the Act on ownership and other real rights), agricultural land (Art. 1 par 3 of the Agricultural Land Act), protected natural areas (Art. 40 par 3 of the Nature Protection Act), forests and forest land (Art. 1 par 3 of the Forests Act).

Following the completion of the administrative procedure upon the application and where consent has been granted, the foreign citizen is entitled to apply for the registration of ownership in the land register.

There is a disadvantage of acquisition if there is a long period of time for the procedure for obtaining the consent which is the legal insecurity of the acquirer. This problem is solved by stipulating a condition in the contract that it becomes valid when the required consent is obtained or with provisions that regulate the payment so that the investment is made in a safer way.

There is a possibility of registering a company in the Republic of Croatia with foreign ownership and that company can acquire real estate ownership rights without the above mentioned consents.

Construction and Use Restrictions

While performing construction works on real estate it is obligatory to obey regulations that deal with regional planning, especially the Act on construction that required the obtaining of the construction permits, as well as location and inspection certificates. These permits may be obtained in special administrative

procedures, and the supervision of compliance with the regulations is the responsibility of the building inspector.

If a building does not comply with the provisions of the Act on construction so that investor does not even additionally act according to the decree on inspection it is even possible to demolish the building at the expense of the investor.

As far as putting in order of the land-registry state for the real estate that lacks all the needed permits is concerned, obtainers of such real estate shall not be prevented from evidencing their property. Mentioned legal matter is dealt with in a way that entry in the land registry books shall be made from which it is visible what permit has not been presented in the moment and for the purpose of land registration.

Rent, Lease and the Form of Their Respective Contracts

Rent and lease of the real estate is stipulated by Act on rent of apartments and by Act on lease and purchase of the business premises. By contract of renting an apartment the lessor is obliged to deliver an apartment to the lessee for the determined rental fee, while by contract on lease of business premises the lessor is obliged to deliver to the lessee certain business premises for use, and the lessee is obliged to pay for that stipulated rental fee. There are also other possible forms of lease such as a lease of the farmland, a lease of the forest etc.

A Contract for renting an apartment as well as a contract for lease of the business premises needs to be signed in a written form, and as far as the duration of the contracts is concerned there are no restrictions nor do the respective contracts cease to exist when a third party acquires the real estate.