

Croatia

Current as of May 2011 | [Download print version](#) (in PDF)

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I. Summary

A. Types of Organizations

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

- Associations
- Foundations
- Funds

Other not-for-profit legal forms, which are outside the scope of this Note due to their limited interaction with U.S. grantmakers, include political parties, minority councils, trade unions, economic interest associations, institutions, and religious organizations.

B. Tax Laws

NGOs are generally exempt from paying profit tax, including on foreign grants and donations. Tax is imposed, however, if the NGO engages in for-profit activity and exemption from the tax would, in the view of the Tax Administration, confer upon the NGO an “unjustified privileged position” in the market. Businesses and other legal entities may deduct donations to NGOs for a broad range of public benefit activities up to 2% of gross income, although the threshold may be raised under certain circumstances.

VAT is required to be collected by entities, including NGOs, that have turnover exceeding 85,000 kuna (approximately USD \$16,000) in a given year. Certain transactions are exempt from VAT, including purchases of goods and services made by charity or public benefit NGOs for the benefit of their members, if it doesn't affect market competition.

II. Applicable Laws

- [Constitution on the Republic of Croatia](#), Offl. Gazette No. 85/2010
- [Law on Associations](#), Offl. Gazette No. 88/2001
- [Law on Foundations and Funds](#), Offl. Gazette No. 36/1995, 64/2001
- [Law on Profit Tax](#), Offl. Gazette No. 177/2004 , 90/2005, 57/2006, 146/08, 80/10
- [Law on VAT](#), Offl. Gazette No. 47/1995, 106/1996, 164/1998, 105/1999, 54/2000, 73/2000, 127/2000, 48/2004, 82/2004 , 90/2005, 76/2007, 87/2009, 94/2009
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- [Law on Social Care](#), Offl. Gazette No. 73/1997, 27/2001, 59/2001, 82/2001, 103/2003 , 44/2006, 79/2007
- [Law on Personal Income Tax](#), Offl. Gazette No. 177/2004, 73/08, 80/10

III. Relevant Legal Forms

A. General Legal Forms

Croatian law creates three pertinent NGO legal forms: the association, foundation, and fund. Associations are far more numerous than foundations or funds.

Association

An association is a voluntarily established organization of natural or legal persons formed and operated to advance purposes stated in its founding charter (also called a constitution or statute) without the intention of gaining profit. [[Law on Associations Art. 2\(1\), 11\(3\)](#)] An association is governed by its members, either directly or through elected

representatives. [[Law on Associations Art. 6\(1\)](#)] It can seek “to protect and promote issues of public or mutual interest, environmental, economic, humanitarian, informative, cultural, ethnic and national, educational, social, professional, sports, technical, health care, scientific and other interests and goals,” but not unlawful purposes. [[Law on Associations Art. 2\(1\), 18](#)] An association, unlike a foundation or a fund, is not restricted to generally beneficial or charitable purposes. [[1](#)]

Foundation

A foundation is property permanently assigned to serve some "generally beneficial" or "charitable" purpose. [[Law on Foundations Art. 2](#)] "Generally beneficial" includes cultural, educational, scientific, spiritual, moral, sports, health care, and environmental purposes. "Charitable" is defined as support to persons in need. [[Law on Foundations Art. 2](#)] The beneficiaries need not be the general public; a foundation is considered generally beneficial even if its activities benefit only members of a particular profession, nationality, religion, or other group. [[Law on Foundations Art. 2](#)] The foundation cannot be created for unlawful or immoral purposes, or “if there is no serious reason for the establishment of a foundation, particularly if the purpose of the foundation is obviously lacking seriousness.” [[Law on Foundations Art. 6](#)] A foundation is generally created by a donor's "letter of establishment" and administered by a director or a governing body pursuant to rules set forth in the foundation's charter (also called a statute). [[Law on Foundations Art. 12-13, 18-21](#)] A foundation may be established by one or more domestic or foreign, physical or legal, persons.

Fund

A fund is a foundation with a fixed lifespan no greater than five years. [[Law on Foundations Arts. 2, 32](#)] Property assigned to the one-time fulfillment of a generally beneficial or charitable purpose does not qualify as a fund. [[Law on Foundations Art. 32](#)] A regular foundation can be converted into a fund under certain circumstances. [[Law on Foundations Art. 33](#)]

Unless otherwise specified, references to "foundations" in this Note include funds.

B. Public Benefit Status

There is no particular legislation which regulates assignment of public benefit status to not-for-profit organizations. As a rule, public benefit NGOs are recognized only through their activities. Foundations and funds can be established as PBOs but only if the purpose of establishment fits to prescribed criteria. (Law on Foundations Art. 2)

IV. Specific Questions Regarding Local Law

A. Inurement

An association cannot perform any activities for the purpose of gaining profit for its members or third parties. Any profit that the association generates must be used exclusively to advance the purposes set forth in its charter. [[Law on Associations Art. 5](#)] The law does not regulate the compensation, awards, or expense reimbursements by the association.

A foundation's property can be used only to advance the foundation's purposes, which must be generally beneficial or charitable. [[Law on Foundations Art. 16](#)] The value of the property must not be decreased or wasted in the course of advancing the purpose. [[Law on Foundations Art. 16](#)] The property should be managed consistent with the foundation's Letter of Establishment or its charter. [[Law on Foundations Art. 31](#)] A foundation's director is entitled to appropriate compensation plus reimbursement of expenses. [[Law on Foundations Art. 13](#)] Members of a foundation's governing body cannot be persons to whom the benefits of a foundation are assigned. [[Law on Foundations Art. 21](#)] Members of this body are entitled to reimbursement of necessary expenses but not ordinarily to compensation. [[Law on Foundations Art. 22](#)] If the foundation's charter permits it, members of the body can be compensated, but only from the foundation's income, not the principal, and only with the approval of the Ministry of Administration. [[Law on Foundations Art. 22](#)] Neither compensation nor reimbursement of expenses to members of a foundation's governing body is permitted if it would significantly impede realization of the purpose of a foundation. [[Law on Foundations Art. 22](#)]

B. Proprietary Interest

An association is permitted to return donations and assets upon dissolution if its founding charter allows it. The same is true for foundations, though their property is in theory "permanently" assigned. [[Law on Foundations Art. 27](#)]

C. Dissolution

Under Croatian law, the assets of a dissolved NGO are generally distributed according to the NGO's founding document.

Upon an association's dissolution, its assets are distributed according to the charter. [[Law on Associations Art. 34\(1\)](#)] The law requires that the charter set forth a plan for distributing property in the event of dissolution, but does not restrict the terms of the

plan. [[Law on Associations Art. 11\(3\)](#)] Thus, nothing in the law prevents an association from transferring its property to an individual, a for-profit entity, or some other non-charitable transferee. [2] However, there are two exceptions: first, assets received from state or local governmental authorities must be returned to the governmental entity. [[Law on Associations Art. 34\(2\)](#)] Second, if an association is terminated by a court ruling or bankruptcy, the court can, in its discretion, convey the assets to an organization pursuing similar purposes. [[Law on Associations Art. 34\(4\)](#)]

Upon dissolution of a foundation, its assets are ordinarily distributed in accordance with its Letter of Establishment or its governing charter; or, if that is not possible, to another foundation pursuing similar purposes. If neither of those distributions is possible, the property is assigned to a generally beneficial or charitable purpose that is similar to the will of the founders of the terminated foundation. [[Law on Foundations Art. 27](#)] Nothing in the law prevents a founder from directing the transfer of the property to individuals or for-profit entities.

In summary, Croatian law does not mandate that the assets of an NGO, upon its dissolution, be distributed to not-for-profit organizations advancing charitable, religious, scientific, literary, or educational purposes, or to a government instrumentality.

D. Activities

1. General Activities

Associations and foundations are legal entities and are generally subject to the rights and obligations of other legal entities. [[Law on Associations Art. 2\(2\)](#); [Law on Foundations Art. 2](#)]

An association is generally permitted to conduct those activities that advance the purposes set forth in its charter. [[Law on Associations Art. 5\(1\)](#)] Activities that do not advance those purposes may lead to criminal penalties. [[Law on Associations Art. 39\(1\)](#)] [3]

An association is not restricted to generally beneficial or charitable purposes. It must be formed without the intention of making a profit, but it can engage in for-profit activities so long as the profits are devoted exclusively to advancing purposes set forth in its charter. It can attempt to influence legislation, but must not participate in a political campaign for public office.

A foundation must pursue generally beneficial or charitable purposes. It can undertake for-profit activities relating to its property as well as certain fundraising activities. It can attempt to influence legislation, but must not participate in a political campaign for public office.

2. Public Benefit Activities

Specific NGO activities are recognised as activities of general significance and, consequently, are entitled to some tax and other minor benefits. These activities are in the areas of culture, education, science, health, humanitarian aid, ecology, and social welfare. There are additional NGO activities that can generally be considered as public benefit (e.g. protection of human rights, protection of the environment, protection of children), but are not entitled to any specific benefits.

3. Economic Activities

An association must be formed “without the intention of gaining profit.” [[Law on Associations Art. 2\(1\)](#)] It may, however, “engage in activities for the purpose of gaining profit,” but any resulting profit must be devoted exclusively to advancing the purposes set forth in the association’s charter. [[Law on Associations Art. 5\(2\)](#)] The law also expressly forbids an association from undertaking any activities, whether for-profit or not-for-profit in nature, for the purpose of providing profits to its members or third parties. [[Law on Associations Art. 5\(4\)](#)] Other provisions of Croatian law regulate an association’s participation in particular forms of for-profit activity. [4]

A foundation can conduct economic activities related to its property - for instance, lease its land or license its patents. It can also organize certain fundraising activities: humanitarian shows, occasional lotteries, production and sales of publications and badges, and the like. [[Law on Foundations Art 16](#)] For a foundation, as for an association, the law does not seem to limit the proportion of resources devoted to for-profit ends.

E. Political Activities

The law does not restrict an NGO's attempts to influence legislation. An NGO can publish its views, criticize state officials and state actions, lobby legislators concerning legislation, and encourage members and others to communicate with public officials. Nothing in the law limits the proportion of an NGO’s budget that it can devote to attempts to influence legislation.

An NGO cannot legally participate in a political campaign for public office, other than serving as an election observer. Under Croatian election law, political activity is the exclusive province of political parties. [Offl. Gazette Nos. 116/1999, 53/03, 44/06, 19/07, 20/09, 145/10]

F. Discrimination

The Croatian constitution forbids discrimination based on race, gender, language, religion, or other stipulated grounds. [[Const. Art. 14](#)] The application of anti-discriminatory principles is more precisely described in the Law on Combating Discrimination. [Offl. Gazette No. 85/08] The laws addressing associations and

foundations do not require non-discrimination. The foundation law expressly authorizes the creation of foundations that benefit members of a particular national, linguistic, cultural, or religious group. [[Law on Foundations Art. 2](#)]

G. Control of Organization

Nothing in Croatian law prevents a Croatian NGO from being controlled by another organization. A Croatian association or foundation may be established (but not owned) by a for-profit entity, which would continue to control it through governing bodies. A Croatian association or foundation, likewise, could be controlled but not owned by an American grantor charity.

V. Tax Laws

A. Income and Profits Tax

Associations and foundations are generally exempt from Croatian profit tax, including on foreign grants and donations. Taxes may be incurred, however, if an organization engages in for-profit activity and if exemption from the tax would give the organization an “unjustified privileged position in the market.” The law is silent on what constitutes an “unjustified privileged position,” so the Tax Administration operates with discretion in this sphere. If an organization is found to have crossed the “unjustified privileged position” threshold, that particular for-profit activity is taxed at the regular business rate of 20 percent.

B. Deductibility of Charitable Contributions

Businesses and other legal entities may deduct donations to NGOs for a broad range of public benefit activities, including cultural, scientific, educational, health, humanitarian, sport, religious, ecological, and other activities, up to 2% of gross income, although the threshold may be raised if the donation was made on the basis of the decision of the relevant ministry for the pursuit of specific programs and actions.

C. Value Added Tax

VAT is required to be collected by entities, including associations and foundations, whose turnover exceeds 85,000 kuna (about USD \$16,000) in a given year. [[VAT Act Art. 22](#)] The general VAT rate is 23%. [[VAT Act Art. 10](#)] However, some specific products and services (including scientific journals, some books and CD-ROMs, milk, bread, and some medicines) are zero rated, while some services related to tourism are subject to a 10% rate. [[VAT Act Art. 10a](#)]

Croatian law provides a few VAT exemptions relevant to NGOs. The import of donated goods for fulfillment of basic human needs (food, medicine, clothes, etc.), and import of donated necessary equipment, made by registered humanitarian and charity organizations is exempt, but exemptions are not applicable to alcohol drinks, tobacco products, coffee, tea, and vehicles (except ambulances). [[VAT Act Art. 12\(12\)](#)] As of January 1, 2010, goods and services paid for out of foreign monetary donations are subject to VAT.

D. Double Tax Treaties

The United States and Croatia have not entered into a double-tax treaty. Individuals and entities paying Croatian profit tax, however, can receive a credit for profit tax paid elsewhere, up to the amount that would otherwise be due in Croatia. [Profit Tax Act Art. 30]

VI. Knowledgeable Contacts

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Footnotes

[1] Croatian law also allows foreign NGOs and other entities to engage directly in activities in Croatia under certain circumstances. A foreign association can operate in Croatia if it heeds the Croatian Law on Associations. [[Law on Associations art. 8](#)] It must first seek registration from the government's state administration office. Applying for registration requires, among other things, providing copies of registration records from the association's home country and the association's governing statute (translated into Croatian), as well as identifying the individual who will represent the association in Croatia. [[Law on Associations art. 20](#)] If the administration office does not respond within 30 days, the foreign association is deemed to be registered. [[Law on Associations art. 20\(3\), 17](#)] In addition, foreign legal entities and individuals (not just associations) can provide funds directly to Croatian individuals whom they believe are in need of such assistance, and they can otherwise "perform the activities of social care." [[Law on Social Care art. 9](#)] "Social care" is defined as "assistance regarding the basic means of life for the indigent, infirm and other persons." [[Law on Social Care art. 3\(1\)](#)]

[2] In practice, the assets are generally distributed to association members or passed on to another association.

[3] Under Art. 11(3), the charter must list the association's purposes and activities, but the law appears to make only the purposes binding. That is, an association apparently can pursue purposes set forth in its charter through activities that do not appear in the charter.

[4] An association may publish books and other materials, but only relating to its area of activity. It may sponsor games of chance once a year. [Law on Games of Chance, Offl. Gazette No. 87/2009] It may undertake certain activities only after receiving a license, such as collecting and distributing humanitarian aid and providing psycho-social services.