GLOBAL FORUM ON TRANSPARENCY AND EXCHANGE OF INFORMATION FOR TAX PURPOSES

Peer Review Report on the Exchange of Information on Request

CROATIA

2019 (Second Round)

OECD

Global Forum on Transparency and Exchange of Information for Tax Purposes: Croatia 2019 (Second Round)

PEER REVIEW REPORT ON THE EXCHANGE OF INFORMATION ON REQUEST

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Reader's guide

The Global Forum on Transparency and Exchange of Information for Tax Purposes (the Global Forum) is the multilateral framework within which work in the area of tax transparency and exchange of information is carried out by over 150 jurisdictions that participate in the Global Forum on an equal footing. The Global Forum is charged with the in-depth monitoring and peer review of the implementation of the international standards of transparency and exchange of information for tax purposes (both on request and automatic).

Sources of the Exchange of Information on Request standards and Methodology for the peer reviews

The international standard of exchange of information on request (EOIR) is primarily reflected in the 2002 OECD Model Agreement on Exchange of Information on Tax Matters and its commentary, Article 26 of the OECD Model Tax Convention on Income and on Capital and its commentary and Article 26 of the United Nations Model Double Taxation Convention between Developed and Developing Countries and its commentary. The EOIR standard provides for exchange on request of information foreseeably relevant for carrying out the provisions of the applicable instrument or to the administration or enforcement of the domestic tax laws of a requesting jurisdiction. Fishing expeditions are not authorised but all foreseeably relevant information must be provided, including ownership, accounting and banking information.

All Global Forum members, as well as non-members that are relevant to the Global Forum's work, are assessed through a peer review process for their implementation of the EOIR standard as set out in the 2016 Terms of Reference (ToR), which break down the standard into 10 essential elements under three categories: (A) availability of ownership, accounting and banking information; (B) access to information by the competent authority; and (C) exchanging information.

The assessment results in recommendations for improvements where appropriate and an overall rating of the jurisdiction's compliance with the EOIR standard based on:

1. The implementation of the EOIR standard in the legal and regulatory framework, with each of the element of the standard determined to be either (i) in place, (ii) in place but certain aspects need improvement, or (iii) not in place.
2. The implementation of that framework in practice with each element being rated (i) compliant, (ii) largely compliant, (iii) partially compliant, or (iv) non-compliant.

The response of the assessed jurisdiction to the report is available in an annex. Reviewed jurisdictions are expected to address any recommendations made, and progress is monitored by the Global Forum.

A first round of reviews was conducted over 2010-16. The Global Forum started a second round of reviews in 2016 based on enhanced Terms of Reference, which notably include new principles agreed in the 2012 update to Article 26 of the OECD Model Tax Convention and its commentary, the availability of and access to beneficial ownership information, and completeness and quality of outgoing EOI requests. Clarifications were also made on a few other aspects of the pre-existing Terms of Reference (on foreign companies, record keeping periods, etc.).

Whereas the first round of reviews was generally conducted in two phases for assessing the legal and regulatory framework (Phase 1) and EOIR in practice (Phase 2), the second round of reviews combine both assessment phases into a single review. For the sake of brevity, on those topics where there has not been any material change in the assessed jurisdictions or in the requirements of the Terms of Reference since the first round, the second round review does not repeat the analysis already conducted. Instead, it summarises the conclusions and includes cross-references to the analysis in the previous report(s). Information on the Methodology used for this review is set out in Annex 3 to this report.

Consideration of the Financial Action Task Force Evaluations and Ratings

The Financial Action Task Force (FATF) evaluates jurisdictions for compliance with anti-money laundering and combating terrorist financing (AML/CFT) standards. Its reviews are based on a jurisdiction's compliance with 40 different technical recommendations and the effectiveness regarding 11 immediate outcomes, which cover a broad array of money-laundering issues.

The definition of beneficial owner included in the 2012 FATF standards has been incorporated into elements A.1, A.3 and B.1 of the 2016 ToR. The 2016 ToR also recognises that FATF materials can be relevant for carrying out EOIR assessments to the extent they deal with the definition of beneficial ownership, as the FATF definition is used in the 2016 ToR (see 2016 ToR, annex 1, part I.D). It is also noted that the purpose for which the FATF materials have been produced (combating money-laundering and terrorist financing) is different from the purpose of the EOIR standard (ensuring effective exchange of information for tax purposes), and care should be taken to ensure that assessments under the ToR do not evaluate issues that are outside the scope of the Global Forum's mandate.

While on a case-by-case basis an EOIR assessment may take into account some of the findings made by the FATF, the Global Forum recognises that the evaluations of the FATF cover issues that are not relevant for the purposes of ensuring effective exchange of information on beneficial ownership for tax purposes. In addition, EOIR assessments may find that deficiencies identified by the FATF do not have an impact on the availability of beneficial ownership information for tax purposes; for example, because mechanisms other than those that are relevant for AML/CFT purposes exist within that jurisdiction to ensure that beneficial ownership information is available for tax purposes.

These differences in the scope of reviews and in the approach used may result in differing conclusions and ratings.

More information

All reports are published once adopted by the Global Forum. For more information on the work of the Global Forum on Transparency and Exchange of Information for Tax Purposes, and for copies of the published reports, please refer to www.oecd.org/tax/transparency and http://dx.doi.org/10.1787/2219469x.

Abbreviations and acronyms

2010 Terms of Reference	Terms of Reference related to EOIR, as approved by the Global Forum in 2010
2016 Assessment Criteria Note	Assessment Criteria Note, as approved by the Global Forum on 29-30 October 2015
2016 Methodology	2016 Methodology for peer reviews and non-member reviews, as approved by the Global Forum on 29-30 October 2015
2016 Terms of Reference	Terms of Reference related to EOIR, as approved by the Global Forum on 29-30 October 2015
4th AMLD	EU Fourth Anti-Money Laundering Directive
AML	Anti-Money Laundering
AML/CFT	Anti-Money Laundering/Countering the Financing of Terrorism
AMLTF Law	Anti Money Laundering and Terrorist Financing Law
CDCC	Central Depository and Clearing Company
CDD	Customer Due Diligence
DTC	Double Tax Convention
EOIR	Exchange Of Information on Request
EU	European Union
FATF	Financial Action Task Force
Global Forum	Global Forum on Transparency and Exchange of Information for Tax Purposes
HANFA	Croatian Financial Services Supervisory Agency
Multilateral Convention (MAC)	Convention on Mutual Administrative Assistance in Tax Matters, as amended in 2010

PIN	Personal Identification Number (which is then utilised in such a way by Croatia's government authorities so as to create an interconnected system of data from all competent registration authorities)
PRG	Peer Review Group of the Global Forum
TIEA	Tax Information Exchange Agreement
VAT	Value Added Tax

Executive summary

1. This report analyses the implementation of the international standard of transparency and exchange of information on request in Croatia on the second round of reviews conducted by the Global Forum. It assesses both the legal and regulatory framework as at 26 April 2019 and the practical implementation of this framework against the 2016 Terms of Reference, in particular in respect of EOI requests received and sent during the review period from 1 January 2015 to 31 December 2017. This report rates Croatia overall **Largely Compliant** with the international standard. In 2016, the Global Forum evaluated Croatia in a Phase 1 review against the 2010 Terms of Reference for the legal implementation of the EOIR standard. No overall rating was given to Croatia given that no review of the implementation of the standard in practice was carried out, due to its recent membership in the Global Forum.

Comparison of determinations and ratings for the First Round Report and the Second Round Report

Element		First Round Report (2016)	Second Round EOIR Report (2019)	
A.1	Availability of ownership and identity information	in place but needs improvements	in place but needs improvements	LC
A.2	Availability of accounting information	in place	in place but needs improvements	LC
A.3	Availability of banking information	in place	in place	C
B.1	Access to information	in place but needs improvements	in place	C
B.2	Rights and Safeguards	in place	in place	C
C.1	EOIR Mechanisms	in place	in place	C
C.2	Network of EOIR Mechanisms	in place	in place	C
C.3	Confidentiality	in place	in place	C
C.4	Rights and safeguards	in place but needs improvements	in place	C
C.5	Quality and timeliness of responses	not applicable	not applicable	C
	OVERALL RATING	not applicable	not applicable	**LC**

C = Compliant; **LC** = Largely Compliant; **PC** = Partially Compliant; **NC** = Non-Compliant

Progress made since previous review

2. The 2016 Report analysed the legal and regulatory framework in Croatia. Since then, Croatia made improvements in several fields to address the recommendations identified.

3. Firstly, Croatia has resolved ambiguities under Croatian domestic law. Croatia amended the General Tax Act to clarify the Tax Administration's access powers for EOI purposes, and to ensure that domestic powers can be used in all cases, regardless of domestic tax interest. The concept of "domestic tax interest" describes a situation where a contracting party can obtain and provide information to another contracting party only if it has an interest in the requested information for its own tax purposes. The amended General Tax Act also puts beyond doubt the tax authority's power to obtain information contained in the shareholder register kept by a company.

4. In addition, Croatia adopted in 2017 a new AMLTF Law to harmonise Croatian law with the 4th EU Anti-Money Laundering Directive (AMLD), and thereby strengthened rules with regards to availability of beneficial ownership information. The AMLTF Law also introduces a Register of Beneficial Owners for all legal entities and arrangements, which is operational since 3 June 2019.

5. Finally, Croatia made progress in respect of the availability of ownership information on relevant foreign companies and partnerships. The AMLTF Law provides that the BO Register covers foreign subsidiaries and branches, and therefore ensures that ownership and identity information is available for foreign entities and arrangements with a place of effective management in Croatia, as required under the standard.

Transparency and EOI in practice

6. This EOIR Second Round review is the first review of Croatia's legal and regulatory framework in practice. The report concludes that Croatia's practical implementation of the standard on transparency is generally effective but there is insufficient experience with the implementation of the strengthened standard on beneficial ownership to lead to a fully positive assessment. What particularly stands out is that Croatia utilises an interconnected system of data based on widespread use of Personal Identification Numbers (PIN), which allows the competent authority to access a very wide range of information from all competent registration authorities, without the need to use its access powers.

7. Moreover, despite a major reform of the Tax Administration in 2017, affecting the organisation of the administration and the number of staff, Croatia has processes and working methods in place to ensure timeliness and quality of responses to EOI requests.

8. During the period under review, Croatia received 149 requests, and sent the same volume of requests with the same partners; being Croatia's neighbours and trade partners in the European Union. The exchange of information practice of Croatia has been effective during the years 2015 to 2017.

Key recommendation(s)

9. The key issues raised by this report relate to the identification of holders of bearer shares and the availability of accounting information of companies that ceased to exist.

10. Croatia's legal and regulatory framework ensures that ownership information regarding all relevant entities is available in Croatia in line with the international standard, but an exception remains in relation to joint stock companies that have issued bearer shares prior to April 2008. An amendment made to the new AMLTF Law prohibits bearer shares, but does not solve the legacy issues linked to existing bearer shares issued prior to 2008 (cf. section A.1.2).

11. In respect of the new aspects of the 2016 Terms of Reference (ToR), Croatia's legal framework and practice ensure the availability of beneficial ownership information through its AML legislation, and the implementation of customer due diligence rules by AML obliged entities. In addition, the new AMLTF law entered into force in January 2018 foresees the establishment of a Register of Beneficial Owners. The Register is effective since 3 June 2019, with a deadline for existing entities and arrangements to provide beneficial owners by the end of 2019. The report does not identify any shortcoming in the structure put in place, but as it could not be assessed, Croatia should ensure that the obligations foreseen under the register are implemented in practice.

12. The present review also identified an issue in relation to the availability of accounting information of companies that ceased to exist. It is not mandatory for companies deleted ex officio from the Commercial Register to provide the Commercial Register with their accounting records, contrary to the general rule for liquidated companies. Therefore, the relevant documentation of said companies is not always available (cf. section A.2).

Overall rating

13. Croatia has achieved a rating of Compliant for eight out of the ten elements constituting the EOIR standard (A.3, B.1, B.2, C.1, C.2, C.3, C.4, C.5), Largely Compliant for elements A.1 and A.2. Croatia's practical implementation of the standard is effective to a large extent, but there is insufficient experience with the implementation of the strengthened standard

on beneficial ownership to support a finding that exchange of information on request will be fully effective in practice. Croatia's overall rating is Largely Compliant based on a global consideration of Croatia's compliance with the individual elements.

14. This report was approved at the PRG meeting in June 2019 and was adopted by the Global Forum on 29 July 2019. A follow-up report on the steps undertaken by Croatia to address the recommendations made in this report should be provided to the PRG no later than 30 June 2020 and thereafter in accordance with the procedure set out under the 2016 Methodology.

Summary of determinations, ratings and recommendations

Determinations and Ratings	Factors underlying Recommendations	Recommendations
Jurisdictions should ensure that ownership and identity information, including information on legal and beneficial owners, for all relevant entities and arrangements is available to their competent authorities *(ToR A.1)*		
The legal and regulatory framework is in place but needs improvement.	The Croatian law allows circulation of bearer shares of joint stock companies issued prior to April 2008. However, there are certain measures which allow identification of holders of these shares and the number of such shares is limited and cannot expand. Despite the adoption of a new AMLTF law in 2017 and the prohibition of bearer shares, the legacy issues linked to bearer shares issued prior to 2008 remains.	Croatia should take measures to ensure that information on all holders of bearer shares that are still in circulation is available.

Determinations and Ratings	Factors underlying Recommendations	Recommendations
EOIR rating: Largely Compliant	Until June 2019, information on beneficial ownership of legal entities and arrangements was available only to the extent they had a relationship with an AML obliged person. The AMLTF Law now foresees the establishment of a Beneficial Ownership Register, which is designed with robust obligations for legal entities and arrangements, and for AML-obliged persons. However, its effectiveness in practice could not be assessed, as it only becomes operational as from 3 June 2019, with the obligation to populate the Register by end 2019.	Croatia should ensure that the new obligations regarding the Beneficial Ownership Register are effectively implemented in practice.
Jurisdictions should ensure that reliable accounting records are kept for all relevant entities and arrangements *(ToR A.2)*		
The legal and regulatory framework is in place but needs improvement	When a company is deleted ex officio from the Commercial Register, the relevant documentation is not always available with the Commercial Register or the Tax Administration.	Croatia should ensure the availability of accounting records after an entity or arrangement ceased to exist.
EOIR rating: Largely Compliant		
Banking information and beneficial ownership information should be available for all account-holders *(ToR A.3)*		
The legal and regulatory framework is in place		
EOIR rating: Compliant		

Determinations and Ratings	Factors underlying Recommendations	Recommendations
Competent authorities should have the power to obtain and provide information that is the subject of a request under an exchange of information arrangement from any person within their territorial jurisdiction who is in possession or control of such information (irrespective of any legal obligation on such person to maintain the secrecy of the information) *(ToR B.1)*		
The legal and regulatory framework is in place	Exception from obligation to provide information to the Tax Administration in respect of lawyers, tax consultants and auditors is too broad and goes beyond the standard as it covers all information obtained by them acting in their professional capacity.	Croatia should ensure that the scope of professional secrecy is in line with the international standard.
EOIR rating: Compliant		
The rights and safeguards (e.g. notification, appeal rights) that apply to persons in the requested jurisdiction should be compatible with effective exchange of information *(ToR B.2)*		
The legal and regulatory framework is in place		
EOIR rating: Compliant		
Exchange of information mechanisms should provide for effective exchange of information *(ToR C.1)*		
The legal and regulatory framework is in place		
EOIR rating: Compliant		
The jurisdictions' network of information exchange mechanisms should cover all relevant partners *(ToR C.2)*		
The legal and regulatory framework is in place		
EOIR rating: Compliant		

Determinations and Ratings	Factors underlying Recommendations	Recommendations
The jurisdictions' mechanisms for exchange of information should have adequate provisions to ensure the confidentiality of information received *(ToR C.3)*		
The legal and regulatory framework is in place		
EOIR rating: Compliant		
The exchange of information mechanisms should respect the rights and safeguards of taxpayers and third parties *(ToR C.4)*		
The legal and regulatory framework is in place	Croatia's EOI agreements do not define the term "professional secret" and the scope of this term under its domestic laws may have negative impact on effective exchange of information.	Croatia should ensure that the scope of professional secrecy under its domestic laws is in line with the international standard.
EOIR rating: Compliant		
The jurisdiction should request and provide information under its network of agreements in an effective manner *(ToR C.5)*		
Legal and regulatory framework:	**This element involves issues of practice. Accordingly, no determination on the legal and regulatory framework has been made**	
EOIR rating: Compliant	While Croatia answered EOI requests within 90 days in 74% of the cases, when it took longer, Croatia provided status updates or partial responses only in 13% of the cases.	Croatia is recommended to improve communication with partners and send status updates whenever the 90-day deadline cannot be met.

Overview of Croatia

15. This overview provides some basic information about Croatia that serves as context for understanding the analysis in the main body of the report. This is not intended to be a comprehensive overview of Croatia's legal, commercial or regulatory systems.

Legal system

16. Croatia is a parliamentary democracy with a multi-party system of government. The executive, legislative and judiciary branches are independent. The executive branch is headed by the Prime Minister. A cabinet of ministers whose members are appointed by the president on the advice of the Prime Minister is approved by the Parliament (*Hrvatski Sabor*). The legislative power consists of a unicameral Parliament of 151 members, directly elected by a party-list proportional representation vote for a four-year term. The judicial branch entails the Supreme Court, general courts (municipal and county courts) and specialised courts (such as commercial courts, administrative courts, magistrates' courts, high commercial and high administrative courts). Tax matters are treated under the administrative courts. The Constitutional court has competence for constitutional issues.

17. Croatia is a unitary state divided into twenty counties and the capital city of Zagreb. Counties have regional self-governments with sub-legislative powers. Regional self-governments can influence the level of taxation in their region through surcharges to taxes levied at the national level.

18. Croatia's legal system is based upon civil law influenced by Hungro-Austrian tradition and forms a single national law. International agreements (including exchange of information agreements for tax purposes) require ratification by the Parliament. The Constitution stipulates that obligations foreseen under ratified international treaties prevail over domestic law.

Tax system

19. Croatia's tax system consists of direct and indirect taxes, fees and duties. From the revenue perspective, the main taxes are the Value Added Tax (VAT), the profit tax (corporate income tax), the income tax and excise duties. Croatia taxes its tax residents (companies and individuals) on their worldwide income. All companies established under Croatian law, and foreign companies with their place of effective management in Croatia, are considered tax residents in Croatia.

20. The corporate tax base is the difference between revenues and expenditures assessed in the profit and loss statement under the accounting rules, which is then increased and reduced for tax-specific items under the corporate tax provisions. The corporate income tax rate is 12% or 18% depending on the amount of total profits. Individuals' income is taxed progressively with tax rates of 24% and 36%. Dividends paid to a non-resident (other than a private individual) are subject to a 12% withholding tax, unless the rate is reduced or exempt under a tax treaty or the dividends qualify for an exemption under the EU parent-subsidiary directive. Interest and royalties are subject to a 15% withholding tax if paid to a non-resident (other than a private individual) unless the rate is reduced or exempt under a tax treaty or the EU interest and royalties directive. Croatian tax law includes transfer pricing and thin capitalisation rules. VAT is imposed on the sale of goods, provision of services, intra-community acquisition of goods and import. The standard VAT rate is 25%, with reduced rates of 13% and 5%. Registration is compulsory for businesses with annual value of transactions exceeding HRK 300 000 (EUR 40 595).

21. The Tax Administration is an administrative organisation within the competency of the Ministry of Finance. Its main responsibility is to implement laws and regulations concerning taxes and the payment of obligatory contributions. The main sources of tax law are the General Tax Act containing rules of taxation and tax procedure for all types of taxes, laws dealing with specific taxes e.g. the Profit Tax Act, the Income Tax Act, the VAT Act, the Real Estate Transfer Tax Act and the Tax Administration Act regulating the organisation and responsibilities of the Croatian Tax Administration. Detailed taxation rules are further prescribed in the tax regulations issued by the Tax Administration. The Act of Administrative Co-operation in the field of Taxation regulates the procedures for the exchange of information and mutual assistance for the recovery of claims according to the EU Directives.

Financial services sector

22. Croatia's financial sector comprises currency and payment systems, financial markets, financial institutions and institutions regulating and monitoring their operations. Banks play a dominant role in Croatia's financial system. As of 1 April 2019 , there were 20 commercial banks, 4 housing savings banks, 4 payment institutions, 4 electronic money institutions and 20 credit unions. Nine banks are primarily owned by resident shareholders and 11 banks have more than 50% of their shares in foreign ownership.[1] In addition, there is one branch of EU credit institutions and around 170 credit and financial institutions from the EU (and the EEA) notified to the Croatian National Bank with mutually recognised services. The total assets of the banking sector at 31 December 2018 were HRK 408.7 bn (EUR 55.1 bn). The share of assets of banks in foreign ownership was 90.2%. The operations of credit institutions are regulated by EU Regulations, primarily the Capital Requirements Regulation (CRR), and by the Credit Institutions Act and the Act on Housing Savings and State Incentive to Housing Savings. All credit institutions incorporated in Croatia have to be authorised by the Croatian National Bank, which is also competent for conducting their supervision.

23. The non-banking sector of financial institutions comprises insurance companies (19), leasing companies (17), factoring companies (6), pension management companies (8) and investment fund management companies (30), which are all regulated and supervised by the Croatian Financial Services Supervisory Agency (HANFA). HANFA is also responsible for regulating and supervising the operations of auxiliary financial institutions such as investment firms (29), regulated stock exchanges (1), the Central Depository and Clearing Company (CDCC) or insurance underwriters including insurance agencies, insurance brokerage companies and natural persons acting as insurance agents and brokers. Natural and legal persons can invest in capital market instruments through mediation of licensed brokers who trade in such instruments on the Zagreb Stock Exchange (ZSE). The responsibility for due settlement of the purchase of securities and sale transactions on the domestic market lies with the CDCC. Pursuant to the Capital Market Act, the CDCC manages the central depository of dematerialised securities, manages the clearing and settlement system of securities and defines unique identification marks of dematerialised securities (ISIN and CFI markets).

1. https://www.hnb.hr/temeljne-funkcije/supervizija/popis-kreditnih-institucija; https://www.hnb.hr/-/kreditne-unije; and https://www.hnb.hr/documents/20182/2561265/ebilten-o-bankama-31.pdf/b1ec2e1b-fa07-49ce-bfef-6e04ca2739cc.

24. The Croatian National Bank, HANFA or the Financial Inspectorate supervise financial institutions according to their type of business activity. The Financial Inspectorate is an organisational part of the Ministry of Finance responsible for financial and AML supervision. It is also responsible for AML supervision of public notaries, lawyers, auditing firms and independent auditors, natural and legal persons performing accountancy and tax advisory services, real estate intermediaries, traders of precious metals or traders with artistic items and antiques. Public notaries are appointed by the Public Notaries Chamber and are regulated by the Public Notaries Law and the Public Notaries Chamber Statute. Lawyers and law firms are regulated by the Law on Legal Professions and the Croatian Bar Association Statute and are required to be registered with the Bar Register. Auditing firms and independent auditors are regulated by the Audit Law (127/17) and are required to be licensed by the Ministry of Finance. Persons performing accountancy and tax advisory services are not centrally organised but there is a number of local organisations representing their members.

AML framework

25. Croatia is a member of MONEYVAL. Croatia was evaluated in November 2012 in MONEYVAL's fourth cycle of evaluations (based on the 2004 AML/CFT Methodology). In the 2013 follow-up report, Croatia was rated Compliant for 7 and Largely Compliant for 25 of the FATF 40+9 Recommendations, and was rated Partially Compliant for 2 and Largely Compliant for 4 of the 6 FATF Core Recommendations. Croatia was rated Partially Compliant for Recommendation 5 on customer due diligence and for Recommendation 33 (Legal persons – beneficial owners). As a result, Croatia was placed in the regular follow-up process.

26. The Croatian Parliament adopted a new AML/CFT Law on 27 October 2017. It was published in the Official Gazette on 8 November 2017. The new law seeks the implementation of Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing (4th EU AML Directive) and MONEYVAL recommendations from the 4th round MER regarding a number of core and key recommendations.

27. Additionally, the Working Group for drafting the Draft Proposal of the Act on Amendments to the Criminal Code finalised its task in April 2018. As a result, the Working Group proposed amendments to the criminal offence of ML, in line with MONEYVAL Recommendations from the 4th round of mutual evaluations. The Act on Amendments to the Criminal Code was adopted by the Croatian Parliament on 14 December 2018 (Official

Gazette 118/2018). Based on the progress described and implementing other recommendations from the 4th Round Report, Croatia expects to exit the Compliance Enhancing Procedure in the near future.

Recent developments

28. Since the 2016 EOIR report, several reforms of the Croatian tax system entered into force in 2017, 2018 and 2019 in order to reduce the overall tax burden for individuals and companies. This comprehensive tax reform applied changes to a wide range of legislation in the field of taxation including to the Value Added Tax Act, the Corporate Income Tax Act, the Profit Tax Act, and the Personal Income Tax Act. Amendments to the Act on Administrative Co-operation in the field of taxation (Official Gazette 115/16, 130/17) entered into force on 8 December 2018 to align it with Council Directive (EU) 2016/2258 amending Directive 2011/16/EU as regards access to anti-money laundering information by tax authorities. The Croatian Parliament adopted the new Anti-Money Laundering and Terrorist Financing Law on 27 October 2017 (Official Gazette 108/17),[2] consequently harmonising Croatian legislation with the 4th EU AMLD. Croatia also implemented the standard of automatic exchange of financial account information.

29. The Tax Administration underwent a profound reform in 2017. The number of regional offices went from 6 to 22, and the number of local offices from 57 to 98. The new organisation is focused on the local offices, where taxes are collected, with special divisions at the central office in charge of following-up and monitoring the work done by local offices. At the regional level, the recruitment of staff has focussed on legal affairs to better match the resources needed in terms of staff qualifications and experience. The reform also implied a new categorisation of jobs in the Tax Administration, which is used to record every change in the work processes and assign mentors to employees to assist with the continuing professional development of officers working in the Tax Administration. The reform also had implications on the salaries of the staff of the Tax Administration at a managerial level and imposed a reduction of 20% of full-time posts. Finally, at the level of the Exchange of Information Unit, the two pre-existing teams have been merged into one to harmonise work processes and improve the efficiency of the work.

2. https://narodne-novine.nn.hr/clanci/sluzbeni/2017_11_108_2488.html.

Part A: Availability of information

30. Sections A.1, A.2 and A.3 evaluate the availability of ownership and identity information for relevant entities and arrangements, the availability of accounting information and the availability of bank information.

A.1. Legal and beneficial ownership and identity information

Jurisdictions should ensure that legal and beneficial ownership and identity information for all relevant entities and arrangements is available to their competent authorities.

31. The 2016 Report found that the legal and regulatory framework of Croatia in terms of availability of ownership and identity information was in place but needed improvement. In particular, the Croatian legal and regulatory framework allowed the circulation of bearer shares of joint stock companies issued prior to April 2008. Although certain measures permit the identification of their holders and the number of such shares is limited and cannot expand, the report recommended that Croatia take measures to ensure that information on all holders of bearer shares that are still in circulation be available. Croatia adopted a new AMLTF Law in October 2017 prohibiting the use of bearer shares. However, this law does not address the legacy issues linked to the bearer shares issued prior to 2008 that may remain in circulation. The recommendation therefore remains.

32. The 2016 Report also found that ownership information was not consistently available on foreign companies having their place of effective management in Croatia and on foreign partnerships that carry on business in Croatia or deriving taxable income. Legal ownership information is available with the tax administration through the Personal Identification Number (PIN) record, as it is the competent registration authority for issuing a PIN to legal and natural foreign persons. In addition, the new AMLTF Law foresees that subsidiaries and branches of foreign companies should register their beneficial owners in the Beneficial Ownership Register, which is operational since 3 June 2019. Legal and beneficial ownership and identity information about foreign companies and partnerships will be available to the Tax Administration and AML service providers. The situation is more

nuanced and the recommendation is therefore removed from the box of recommendations.

33. Not discussed in the 2016 Report, but now an integral part of the 2016 ToR is availability of beneficial ownership information. Croatia has the legal framework in place to ensure the availability of beneficial ownership information of legal entities and arrangements, through its AML law and the recently introduced Beneficial Ownership Register. Croatia should ensure that the new obligations regarding the implementation of the Beneficial Ownership Register are effectively implemented in practice.

34. The present report assesses for the first time the implementation of the Croatian legal and regulatory framework and the availability of ownership and identity information in practice. The implementation of the legal framework in practice is effective. The interconnected personal identification number (PIN) record, which is specific to Croatia, allows for availability of legal ownership information in practice through the automatic notification to the Tax Administration that a new legal entity has been incorporated and transfer of identity and ownership information.

35. During the peer review period, Croatia received 149 requests, 27 of which related to ownership and identity information. Peers were generally very satisfied with the information received. The Tax Administration reports that it has never been unable to respond to a request for information due to the fact that information was not available in accordance with the law. This is linked to the fact that, with regular controls and audits, the oversight system is effective in practice.

36. The new table of recommendations, determination and rating is as follows:

Legal and Regulatory Framework		
Deficiencies identified	**Underlying Factor**	**Recommendations**
	The Croatian law allows circulation of bearer shares of joint stock companies issued prior to April 2008. However, there are certain measures which allow identification of holders of these shares and the number of such shares is limited and cannot expand. Despite the adoption of a new AMLTF law in 2017 and the prohibition of bearer shares, the legacy issues linked to bearer shares issued prior to 2008 remains.	Croatia should take measures to ensure that information on all holders of bearer shares that are still in circulation is available.
Determination: The element is in place, but certain aspects of the legal implementation of the element need improvement.		

Practical Implementation of the standard		
Deficiencies identified	**Underlying Factor**	**Recommendations**
	Until June 2019, information on beneficial ownership of legal entities and arrangements was available only to the extent they had a relationship with an AML obliged person. The AMLTF Law now foresees the establishment of a Beneficial Ownership Register, which is designed with robust obligations for legal entities and arrangements, and for AML-obliged persons. However, its effectiveness in practice could not be assessed, as it only becomes operational as from 3 June 2019, with the obligation to populate the Register by end 2019.	Croatia should ensure that the new obligations regarding the Beneficial Ownership Register are effectively implemented in practice.
Rating: Largely Compliant		

A.1.1. Availability of legal and beneficial ownership information for companies

37. The following types of companies can be established under Croatian law:

- A joint stock company – a company in which shareholders (legal or natural persons) participate in the share capital divided into shares and who are not liable for the obligations of the company. The minimum share capital of a joint stock company is HRK 200 000 (EUR 26 200). A joint stock company may also have only one shareholder.
- A limited liability company – a company established by one or more legal or natural persons through contribution to its share capital. Limited liability companies cannot issue share securities. The minimum amount of the share capital of limited liability company is HRK 20 000 (EUR 2 620).
- A European company (*Societas Europaea*, SE) – European Companies are regulated by Council Regulation 2157/2011 on the Statute for a European Company which permits the creation and management of companies with a European dimension, free from the territorial application of national company law. They are subject to the same rules as joint stock companies (see para. 50 of the 2016 Report).

Type of company	Governing law	Number as at December 2018	Number as at September 2015
Joint stock company	Companies Act	873	1 045
Limited liability company	Companies Act	147 545	117 279
European companies	Council Regulation on the Statute for a European Company	0	0

Legal ownership and identity information requirements

38. Legal ownership and identity information for companies is available in Croatia and found mainly in the Commercial Register and shareholder registers maintained by companies. Furthermore, some information is also available with the notary who acted for the company in its registration. The legal and regulatory framework for the establishment of companies and the availability of ownership information has not changed substantially since 2016 (see 2016 Report, paras. 44-57). This information is directly available to the Tax Administration thanks to the interconnection of the Commercial Register with the Tax Register.

39. The following table[3] summarises the legal requirements to maintain legal ownership information in respect of companies.

Legislation regulating legal ownership of companies

Type	Company law	Tax law	AML Law
Joint stock company	All	Some	Some
Limited liability company	All	Some	Some
European company	All	Some	Some
Foreign companies (tax resident)	Some	Some	Some

3. The table shows each type of entity and whether the various rules applicable require availability of information for "all" such entities, "some" or "none". "All" in this context means that every entity of this type created is required to maintain ownership information for all its owners (including where bearer shares are issued) and that there are sanctions and appropriate retention periods. "Some" in this context means that an entity will be required to maintain information if certain conditions are met.

Companies law requirements

40. The Companies Act provides that every company incorporated in Croatia becomes a legal person upon its registration in the Commercial Register and loses the status of legal person upon deletion from the register (s. 4 Companies Act).

41. Key information on every company must be registered and kept up to date with the Commercial Register:

- name of the company
- legal type of the company (and its duration, if limited)
- subject of business
- address of the company's seat in Croatia
- name and surname of the persons authorised to represent the company, with their unique personal identification number (PIN), address of residence, and the method of representation
- names of all board members, members of the supervisory board and executive directors and their address of residence and PIN
- date of delivery of the complete financial documents
- date of adoption of the memorandum of association (and the date and brief of content of any amendments)
- the termination of the business entity, together with the reasons for termination or reasons why the removal from the register was ordered.

42. The PIN is a permanent identifier assigned to Croatian citizens, foreign residents, legal persons with registered offices in Croatia or with a place of effective management (s. 5 Act on Personal Identification Number). PIN holders are obliged to use it in all applications and other filings with government authorities and other holders of PINs, in documents used in performing their business activities and in payment transaction (s. 6(1) Act on Personal Identification Number). All board members and shareholders need to have a PIN in Croatia.

43. The ownership information available in the register differs depending on the type of company: ownership information on joint stock companies is available only where there is only one shareholder, while the identity of all members of limited liability companies is entered in the Register (name, address, and PIN of all their members). This is due to the different nature of the two types of entities: the ownership of joint stock companies is much more flexible in practice and shareholding can change every day for those

that are listed on a stock exchange. It would therefore not be practical to have the Register amended for each change. The ownership information is available with the company itself in the shareholder register, and through securities accounts (see paragraph 53 below).

44. Limited liability companies have to promptly report to the Register any change in the shareholder register kept by the company.

45. Commercial courts are responsible for the Commercial Registers under the Companies Act. Registration and subsequent filing to the Commercial Register should be made with the commercial court with territorial jurisdiction over the place where the seat of the company is located, i.e. the place in Croatia where the company's management board is located and from where the company's business is run.

46. When compiling an application for entry into the Commercial Register, a public notary is obliged to check the registration form as well as the identity and authority of the persons submitting the application for registration. This has been confirmed in practice during the onsite visit by the representative of the Notaries Chamber and the representative of the Commercial Court, who acknowledged that notaries are involved in the registration procedure, including when any change occurs to the shareholding structure and has to be reported to the Commercial Register. It is also possible to establish a limited liability company electronically by using HITRO.HR's services, an online platform, but it remains necessary for a public notary to participate in this process.

47. Upon registration, each entity receives its unique and unchangeable registration number (*Matični broj subjekta*, MBS). It is a unique identifier of each entity and is used in all communication with the government authorities, including courts and local governments. In addition, each registered entity receives a unique personal identification number (PIN) issued by the Tax Administration based on information provided by the commercial court upon registration of the entity.

48. In practice, given that Commercial Registers are governed at regional level by regional courts, it has happened that several companies were opened with the same name in different registers. However, the MBS and the PIN are unique and two companies registered under the same or similar name would have different identification numbers. During the onsite visit, Croatia clarified that the law was being amended, so that the Commercial Registers governed at regional level would be interconnected in a centralised system. Changes to the law are in force since 20 April 2019 (amendments to the Companies Act and to the Act on Commercial Register).

49. The information entered into the register should be kept permanently (Article 15, paragraph 2 of the Law on Commercial register). This

was confirmed during the onsite visit by representatives of the Commercial Register. Information entered into the Commercial Register is kept regardless of the liquidation or deletion ex-officio from the Register. Further details on companies that ceased to exist are provided under section A.2.

Tax law requirements

50. All companies registered in the Commercial Register are automatically registered with the Tax Administration, through the PIN record. The PIN record is an interconnected system of data from all competent registration authorities. The Tax Administration gets information through automatic electronic notice via the PIN record that a new company has been incorporated in the Commercial Register (which is under the competence of the Ministry of Justice), and legal ownership information about their shareholders. The information contained in the Commercial Register is automatically transmitted to the Tax Administration Register, at the time of incorporation and whenever a change is made. Therefore, legal ownership and identity information of limited liability companies and joint stock companies with one shareholder registered in the Commercial Register is automatically available to the Tax Administration through the PIN record. The PIN record and data relevant for taxation is available to the Tax Administration (central, regional and local offices) regardless of their location (depending on authorisation access), due to the uniformed IT system.

51. In certain situations, taxpayers are required to report ownership information directly to the Tax Administration, e.g. taxpayers who directly or indirectly acquire more than 50% share in a domestic or foreign company or participate in the system of affiliated companies[4] (art. 68 General Tax Act).

52. Similarly, taxpayers deriving income subject to tax are required to submit an annual income tax return. Certain tax positions require that the company disclose its ownership structure to the Tax Administration in its annual filing (e.g. transfer pricing, utilisation of tax losses, thin capitalisation rules and exemptions of dividend payments). These requirements allow cross checking or complementing information available through the PIN record system. This information is kept permanently.

4. Affiliated companies are (i) a company which has a majority share or majority vote in another company; (ii) subsidiary and parent company; (iii) companies with shares connected in the manner that every company has more than a quarter of shares in another company; (iv) companies connected by entrepreneurial agreements such as contracts regarding company's business managements, contracts on profit transfer and other agreements entered into the Commercial Register.

Information held by companies

53. Companies (i.e. LLCs, joint stock companies and SEs) are required to maintain a shareholder register. Until a person is entered into the register of shareholders, it does not have legal rights of a shareholder in respect to the company (Companies Act ss. 226 and 410-411). Information contained in the register is considered as evidence of the facts stated there and can be relied upon by third parties and courts (s. 66 Companies Act).

54. The register of shareholders should contain in respect of each shareholder:

- name and surname, or name of the legal entity, and PIN
- seat and address
- if a member is a legal person, the particulars relating to its registration, i.e. the name of the legal entity, PIN, seat and address, and register where it is registered
- the par values of the shares subscribed to, and the contributions made
- any additional consideration which the member is required to give to the company or which was given
- any liabilities related to his/her share
- The number of votes he/she has in the decision-making by the company members.

55. A new shareholder is entered into the shareholder register by the management board upon proof of the share transfer. The register must be kept accurate and up to date at all times. Upon entry of a new shareholder, the previous shareholder should be deleted from the register, but remains in its archived version. The register should be available to the members of the company for inspection without delay. Companies are obliged to keep information contained in the shareholder register for 11 years in accordance with the provisions of the Accounting Act.

56. Companies and financial institutions holding dematerialised shares on securities accounts, i.e. joint stock companies, must provide the company with the necessary information to maintain the shareholder register.

57. During the onsite visit, the tax audit department confirmed that they look at shareholder registers when performing an audit, including its accuracy.

Information held by service providers

58. As mentioned under the section above on Companies Act requirements, notaries are involved in the incorporation of all companies. They are also involved when a member of a limited liability company changes, as this requires the change of the articles of association and registration. Notaries first check the accuracy of the information submitted by their clients. They also perform customer due diligence in application of Croatia's AML legislation. Since their relationship is usually not continuous but event-related, the notaries do not update BO information on an ongoing basis. Other service providers also perform CDDs but the information would be available only to the extent that a company uses their services (see section on beneficial ownership information).

59. Joint stock companies issuing dematerialised securities are obliged to register with the Central Depository and Clearing Company (CDCC), which represent 84% of all joint stock companies. The CDCC manages the central depository of dematerialised securities, the clearing and settlement system of securities and defines unique identification marks of dematerialised securities (Capital Market Act). Once the joint stock company is registered with the Commercial Register, the CDCC manages any change in shareholders for the company. While the CDCC mainly works at the beneficial ownership level, the registration with the CDCC is mandatory to be given a shareholder status with a joint stock company. In practice, there exist some custodian accounts that are protected accounts and the CDCC does not know who the owner is, but the legal ownership information is available with the custodian books (the business account records of a custodian acting for the companies registered with the CDCC), and can be requested at any time by the Tax Administration, the Central Bank or the Croatian Financial Services Supervisory Agency (HANFA).

Nominee identity information

60. Nominee ownership is a common law concept, which is not part of Croatian law. The person whose name is in the register of shareholder is the legal owner.

61. Any person in Croatia, who provides nominee services pursuant to foreign laws on a professional basis to another person on whose behalf he/she acts, becomes an AML obliged person and is required to perform customer due diligence measures when establishing a business relationship. These include identification of a customer, verification of identification and ongoing monitoring of the business relationship ensuring up-to-date information on the customer. Non-professional nominees are not regulated under Croatian AML law. The Croatian authorities have advised that they have never encountered such nominees in practice.

Foreign companies

62. The 2016 Report concluded that ownership information on foreign companies with a place of effective management in Croatia would be available mainly based on their tax and AML obligations and through service providers in Croatia. Although these obligations ensure the availability of ownership information in a majority of cases, they are linked to certain conditions, i.e. engaging with an AML service provider or the conditions established in the General Tax Act, that may not necessarily apply to all foreign companies with a place of effective management in Croatia. Croatia was therefore recommended to ensure that ownership information on foreign companies is consistently available in accordance with the standard. The situation is more nuanced in practice and the recommendation is removed from the box of recommendations.

63. A company established under foreign law can conduct business in Croatia through a branch or through the establishment of a subsidiary company under Croatian law (see 2016 Report paras. 69-74). The concept of permanent business activity does not include occasional or one-off activity or carrying out contracted particular project (s. 612 Companies Act). Having headquarters or head office in Croatia will therefore typically trigger an obligation to establish a branch office there.

64. Foreign companies are not required to provide information on their members or shareholders to the Commercial Register upon registration or subsequently. The registration of a branch office of a foreign company has to include, in addition to information which has to be provided by all entities upon registration with the Commercial Register:

- a proof that the foreign company is registered in the country of its registered office (including underlying documentation)
- the decision of the founder on the setting-up of the branch office
- a copy of the founder's deed of formation, company agreement of articles of association, publicly certified pursuant to the laws of the country in which the founder's registered office is located
- publicly certified summary of the founder's last annual financial statements.

65. In case of change in information provided to the Commercial Register, the company must within 15 days report this change to the Commercial Register and include the changed documents (s. 9 Court Register Act). Limited ownership information is therefore available in the Register.

66. More importantly, when operating in Croatia, a branch office must keep its books in accordance with the Accounting Act, i.e. for 11 years (s. 617 Companies Act), which includes the register of shares.

67. A foreign company with place of effective management in Croatia becomes tax resident in Croatia (s. 3 Profit Tax Act). As in case of other companies, they are registered with the tax authority, obtain a PIN and are required to file annual tax returns in respect of their worldwide taxable income. The same information as in case of domestic companies has to be provided to the Tax Administration.

68. The tax requirements to report ownership are minimal: taxpayers who directly or indirectly acquired more than a 50% share in a foreign company, or participate in the system of affiliated companies have to report this fact to the tax authority, and a company over which another person has a majority membership rights is obliged to report the fact as well (article 68 General Tax Act).

69. The Tax Administration is the competent registration authority for issuing a PIN to legal and natural foreign persons (s. 5 Act on Personal Identification Number). In practice, this means that the Tax Administration is responsible for collating and validating the information concerning any foreign person who opens a company or a bank account. As foreign companies with a place of effective management in Croatia become resident for tax purposes, they would need to register with the Tax Administration and apply for a PIN number by filing a form and providing the registration certificate from their incorporating jurisdiction, where the founders would be identified in most cases (Art. 14(8) of the Ordinance on Personal Identification Number). This information would be subject to a process of verification before the Tax Administration issues a PIN to the foreign person, and a PIN is a requirement to be able to register a legal entity with the Commercial court, or to conduct any type of business activity in Croatia. To sum up, this means that legal ownership information on foreign branches would be available in the records of the Tax Administration. However, information on all shareholders of foreign companies with a place of effective management in Croatia may not always be available in Croatia. Croatia should therefore address this limited gap (see Annex 1).

70. In addition, Croatia adopted on 27 October 2017 a new Anti-Money Laundering and Terrorism Financing Law, which prescribes the establishment of a Beneficial Owners Register. As of 1 January 2019, companies and other legal entities, including branches and subsidiaries of foreign companies, are obliged to keep adequate, accurate and updated information about their beneficial owners, and to input the BO data into the BO Register (article 32 of the AMLTF Act).

71. In practice, the Croatian National Bank explained during the onsite visit that when foreign companies have complex structures, it could last several months to establish the structure, specific names and contracts. If a bank fails to identify the beneficial owner of a company, it cannot open an account, and if there were a change in the beneficial ownership chain, the bank would close the account if it were not capable to conduct customer due diligence checks and identify the ultimate beneficial owner.

72. AML obliged entities have a good understanding of the risks, and ensure that the ownership information of foreign entities is available in practice. The PIN records also allow identifying the legal ownership of foreign companies registered with the Tax Administration and the Commercial Register. As from June 2019, the Beneficial Ownership Register will be operational and branches and subsidiaries of foreign companies will have to declare beneficial ownership information to the Register. Croatia is therefore recommended to ensure that the new obligations regarding the Beneficial Ownership Register are effectively implemented in practice, including regarding foreign companies.

Legal ownership information – Enforcement measures and oversight

73. Appropriate penalties for non-compliance with key obligations are an important tool for jurisdictions to effectively enforce the obligations to retain identity and ownership information. Croatia's legal framework provides for sanctions in respect of all key obligations to maintain ownership information.

74. The Companies Act foresees sanctions for failure to comply with its requirements, i.e. if a legal person (i) fails to file for registration in the Commercial Register within the deadline; (ii) fails to provide all particulars required under the law to be registered with the Commercial Register, (iii) fails to keep the information provided to the Commercial Register accurate; (iv) fails to maintain properly the shareholder register kept by the company; and (v) fails to grant access to a shareholder to information contained in the shareholder register (s. 630 Companies Act). Fines can be up to HRK 50 000 (EUR 6 550) for a legal person and cannot exceed HRK 7 000 (EUR 920) for a company's member, a member of the company's board, a director or a liquidator responsible for the failure. Providing false statements to the Commercial Register or serious failure to disclose the relevant documents represents a criminal offence punishable by imprisonment of up to two years (s. 624 Companies Act). During the onsite visit, the representatives of the Commercial Court confirmed that sanctions are available if companies are not compliant with their obligation with the Commercial Register, but clarified that sanctions would be in the competence of the misdemeanour court. Sanctions are rarely used in practice, as the Commercial Register gives validity to the company.

75. The Law on Prohibiting and Preventing Unregistered Activities (Official Gazette 61/11) lays down what is considered an unregistered activity, powers to suppress it, supervision, administrative measures and misdemeanours. The law applies to legal entities, institutions and consortium that carry out economic or other activities, as well as natural persons who carry out activities falling within the scope of a freelance profession, other self-employed activity or craft activity. Carrying out an activity that is not registered in a Commercial Register, other appropriate register, with the competent authority or filed with the Tax Administration is considered as a non-registered activity. The Customs Administration performs supervisory activities in accordance with the provisions of the aforementioned Law by prohibiting the performance of an activity by a written decision if a legal or a natural person performs the activity without being registered as prescribed by the law. A fine ranging from HRK 20 000 to 50 000 (EUR 2 700 to 6 745) can be imposed to a legal person who performs activity without entering a commercial or other appropriate register. A fine ranging from HRK 10 000 to 30 000 (EUR 1 350 to 4 050) can be applied for a natural person performing an activity non-registered with the competent authorities or did not report it to the tax authorities.

76. During the onsite visit, the representatives of the Customs Administration clarified that supervision or audit is conducted ex officio or if they receive a complaint. When performing an audit, custom officers ask for specific documents to ensure that the entity performs activities for which it is registered. The table below describes the number of controls by the Customs Administration and the irregularities identified.

Customs Administration controls on unregistered activities

	2015	2016	2017
Audits	5 557	3 663	2 602
Irregularities detected	1 119	891	600

77. The lowering of the number of audits is explained by the development of a systematic planning of controls since 2016. Through the introduction of applications for receiving reports, the Customs Administration carried out a targeted implementation of monitoring activities. Although the total number of controls was reduced compared to 2015, the percentage of oversight of irregularities has increased, which is the main purpose of the monitoring activities.

78. The General Tax Act provides for sanctions to taxpayers who fail to comply with their tax obligations including failures to provide or keep available the relevant information. The Act provides for a fine of up to HRK 500 000 (EUR 65 650) applicable against a legal person and a fine up to

HRK 40 000 (EUR 5 250) which can be imposed upon a responsible person who caused the failure. These sanctions apply in cases such as if a taxpayer (i) fails to keep in its registered address business records and other documentation required, (ii) fails to report an acquisition of a majority share in another legal person or becoming a party of a group of affiliated companies, or (iii) presents inaccurate or untrue information in his/her tax return (ss. 192-194 General Tax Act). Further sanctions under the tax law include fines and surcharges related to undeclared or unpaid tax. If the failure to provide information leads to undeclared tax in an amount exceeding HRK 20 000 (EUR 2 620), criminal sanctions apply, including an imprisonment of up to five years (s. 256 Criminal Code).

79. The tax audit department can open an investigation when a tax return is not provided. The audit system is based on a risk-management file, checking all the information available in the database. The Tax Administration has developed a system where it can retrieve data on ownership information from six institutions in charge of specific data, i.e. information about ownership of property from the Tax Administration, information about vehicles from the Ministry of Interior, about securities and dividends from the CDCC, about shares from the Commercial Courts, about ships and vessels from the ministry of transport, and about ownership of land from the state directorate. The tax audit can also include checks of business books, and shareholder registers, to ensure that the legal ownership declared to the Commercial Register, and therefore to the Tax Administration, is accurate (see statistics under A.2 below). This oversight system allows for the availability in practice of ownership and identity information.

Availability of legal ownership information in practice in relation to EOI

80. During the period under review, Croatia received 27 requests for legal ownership information. The peer inputs received reflected that they were satisfied with the responses provided by Croatia.

Availability of beneficial ownership information

81. Under the 2016 ToR, a new requirement of the EOIR standard is that beneficial ownership information on companies should be available. In Croatia, this aspect of the standard is met mainly through the AMLTF Law, and the customer due diligence (CDD) obligations of the AML obliged entities. There is no obligation to engage with an AML obliged entity when doing business in Croatia in all cases. However, as from 2019, all relevant legal entities and arrangements will have to register their beneficial owners into the national Register of Beneficial Owners.

Legislation regulating beneficial ownership information of companies

Type	Company law	Tax law	AML law
Joint stock company	None	Some	All
Limited liability company	None	Some	All
European company	None	Some	All
Foreign companies (tax resident)	None	Some	All

Anti-money laundering requirements

82. The Anti Money Laundering and Terrorist Financing Law was adopted in October 2017 and entered into force on 1 January 2018. It is the main AML law, transposing into Croatian law the 4th AMLD. Doing so, it also implements the EOIR standard. The European Union's 4th Anti-Money Laundering Directive (AMLD) provides:

83. Member States shall ensure that corporate and other legal entities incorporated within their territory are required to obtain and hold adequate, accurate and current information on their beneficial ownership, including the details of the beneficial interests held.

84. The AMLTF Law foresees the establishment of a Beneficial Ownership information Register, which will be kept by the Financial Agency (FINA) on behalf of the Ministry of Finance.

85. The AMLTF law defines the beneficial owner of a legal person as any natural person who ultimately owns or controls the customer or on whose behalf a transaction is conducted (Article 28). The beneficial ownership definition, applicable to AML obliged entities and the Register of Beneficial Owners, includes:

- natural person(s) who owns or controls a legal person through direct ownership via more than 25% of the ownership share, voting or other rights, on the basis of which he/she shall exercise the right of managing the legal person or the ownership over 25% plus one share
- natural person(s) who controls a legal person through indirect ownership, i.e. an ownership or a control of the same natural person(s) over one or more legal persons which individually or together have more than 25% of business shares or 25% plus one share in the customer
- natural person(s) who has a controlling function in managing the legal person's property via other means, which may also refer to the control criteria used when preparing consolidated financial reports, for example, via the shareholders' agreement, exercising of the prevailing influence and powers for appointing the high-level management.

86. The definition of beneficial owner provides a cumulative approach for the first two steps in the sense that persons controlling the company through other means than ownership should always be identified together with persons having an ownership control over the company, and a cascading approach for the third step. When all possible means have been exhausted in order to identify the beneficial owner, and it is not possible to identify a natural person(s) who meets the definition of beneficial owner, or there is a suspicion that the identified natural person is not a beneficial owner, the beneficial owner of the customer should be considered a natural person(s) who is a member of the management board or other managing body (Article 28.8 AMLTF Law). This definition covers ownership chains, control through other means and the fall back identification of managers, and thus meets the standard.

87. All reporting entities are obliged to document the procedures of identifying and verifying the identity of the beneficial owner of the customer (Article 28.9 AMLTF Law). Information (including accompanying documentation) obtained pursuant to due diligence measures should be kept for a period of ten years after the termination of a business relationship or execution of the transaction (Article 79 AMLTF Law).

88. Customer due diligence measures include (i) identifying the customer's identity on the basis of documents, data or information obtained from a credible, reliable and independent source; (ii) identifying the beneficial owner of the customer and verifying the beneficial owner's identity; (iii) collecting data on the purpose and intended nature of the business relationship or transaction; and (iv) conducting ongoing monitoring of the business relationship, including due scrutiny of transactions undertaken during the course of the business relationship (Article 15(1)). Sections III and IV of the AMLTF Law further describe the manner of implementing CDD measures and the manner of conducting the measures of identifying the customer and verifying the beneficial owner(s).

89. In addition, AML obliged entities are required to conduct an ongoing monitoring of the business relationship with their clients, including through regular monitoring and updating of the collected documents and information on customers, beneficial owners of customers and the customer risk profile (Article 37(2) AMLTF Law).

90. Fines ranging from HRK 35 000 to 1 000 000 (EUR 4 720 to 134 900) can be imposed for non-compliance of customer due diligence obligations to legal persons (art. 150(1) AMLTF Law), and fines ranging from HRK 6 000 to 75 000 (EUR 810 to 10 120) to the member of the management board, or another person responsible for the failure (art. 150(2) AMLTF Law). Fines ranging from HRK 15 000 to 450 000 (EUR 2 025 to 60 740) can be imposed to a lawyer, public notary, independent auditor, external accountant,

tax adviser, craftsman, and independent trader for failure to comply with obligations under the AML law, including CDD obligations (art. 150(3) AMLTF Law).

91. The new AMLTF Law entered into force on 1 January 2018. During the period under review, the former AML Act was in force, and contained the same definition of beneficial owner, customer due diligence measures and record keeping obligations (as further described in paragraphs 65-68 of the 2016 Report).

92. In practice, AML service providers met during the onsite visit are well aware of the AML obligations applicable in Croatia and conduct thorough due diligence procedures before establishing a business relationship with a client. A representative of the accountants association explained that it could be difficult to establish the beneficial ownership identity of a client when several companies are included in the ownership structure of a client. He explained that they would try to identify the natural person behind the ownership structure, list the number of shares and see if the 25% threshold is met. However, they would not be looking in all cases until the end of the ownership chain and if control through other means would apply. Other representatives were more aware. The representative of the Chamber of Tax Advisers added that inquiries received from physical or legal persons established abroad are complex situations they have to deal with. He explained that in cases where they receive only a copy of a passport without being capable of verifying the identity of this person, they would reject the inquiry and not establish a business relationship. A representative of the Bar Association added that it is mandatory for all lawyers to undergo a training related to AML obligations. AML obliged entities also reported that they update beneficial ownership information for high-risk clients every year, while conducting ongoing monitoring of transactions. Beneficial ownership information is updated every two years for medium-risk clients.

93. The Croatian National Bank, HANFA and the Financial Inspectorate supervise institutions according to their type of business activity. The Financial Inspectorate is an organisational part of the Ministry of Finance responsible for financial and AML supervision. It supervises the AML obligations of public notaries, lawyers, auditing firms and independent auditors, natural and legal persons performing accountancy and tax advisory services. Due diligence measures performed by financial institutions in Croatia are further developed under section A.3 below.

94. During the onsite visit, representatives of HANFA confirmed that financial services providers are obliged to conduct the same customer due diligence procedures that are applicable to financial institutions. The CDCC is working at beneficial ownership level, but does not perform due diligence checks regarding the beneficial owner as it relies on CDD procedures

performed by the custodian. The representative of the Bar Association explained that sanctions apply if a lawyer is not complying with its AML obligations. Such a lawyer could receive disciplinary sanctions from the Bar Association, which can reach the prohibition of practice in certain cases. Supervision performed by the Croatian National Bank regarding the application of CDD provisions by financial institutions is explained under section A.3.

95. The table below provides the statistics on the supervision performed by the Croatian Bank and the Financial Inspectorate regarding the implementation of all provisions of the AMLTF Law during the period under review (2015-17). The irregularities found did not always lead to fines, but rather written recommendations or written warnings with follow-up obligations. The statistics confirm that the supervision carried out by Croatian authorities is efficient.

Supervision on the implementation of all provisions of the AMLTF Law

	2015			2016			2017		
	Number of inspections	Irregularities found	Imposed fines (EUR)	Number of inspections	Irregularities found	Imposed fines (EUR)	Number of inspections	Irregularities found	Imposed fines (EUR)
Banks	33 off-site and 6 on-site	4	81 279	30 off-site and 5 on-site	3	2 700	36	6	17 000
Lawyers	27	16	13 372	36	19	13 639	23	13	0
Notaries	22	21	5 915	21	17	8 103	28	17	13 472
Accountants, auditors and tax advisory services	64	53	5 910	66	66	29 780	71	49	29 777
Total	152	94	106 476	158	105	54 222	158	85	60 249

The new Register of Beneficial Owners

96. The main new element introduced in the amended law is the Register of Beneficial Owners (Articles 32-36). Pursuant to Article 32(1) of the AMLTF Law, the Register will be a central database on beneficial owners of:

- Legal persons established in Croatia, i.e. companies, branches of foreign companies, associations, foundations, funds, and institutions not owned solely by the Republic of Croatia or a local or regional self-government.

- Trusts and entities equal to them, incorporated under a foreign law, that are obliged to have a personal identification number in the Republic of Croatia, on the basis of the Act regulating the personal identification number.

97. The Register of Beneficial Owners should contain the following information: (i) beneficial owner(s), including name and surname, country of residence, date of birth, identification number or data on identification document, citizenship, and data on nature and extent of beneficial ownership; and (ii) ownership structure, with, regarding companies, the data on shares, stake, or other form of participation in the ownership of the company (Article 33(1) AMLTF Law).

98. At the time of the onsite visit in October 2018, the draft rulebook on the Register of Beneficial Owners was not yet finalised, as the public consultation process had just been finalised on 13 September 2018. The register is operational since 3 June 2019 with the obligation for existing legal entities to populate the register with BO information by the end of 2019.

99. The Register of Beneficial Owners is maintained by the Financial Agency (FINA) on behalf of the Ministry of Finance. The Financial Agency is a separate public legal person established by law. It conducts a broad range of services, such as carrying the single register of bank accounts, debt enforcement, as well as certain activities for the banks on the basis of separate contracts. The Financial Agency is only in charge of the technical implementation of the electronic database, as the entities are responsible for providing the BO information and recording it in the BO register.

100. Legal entities will provide the information to the Financial Agency via their PIN number. During the onsite visit, Croatian authorities explained that if a legal entity indicates that the beneficial owner is the director, it would need to explain why. After the original transition period, if a new company were created, it would have to provide the information on the beneficial owner within 8 days after registering to the Commercial Register. In addition, legal entities and arrangements have to update the information in the beneficial owner register no later than 15 days after the change occurred.

101. Fines ranging from HRK 5 000 to 350 000 (EUR 675 to 4 240) can be imposed on legal persons which do not record appropriate, accurate and up-to-date information on their beneficial owner(s) in the Register of Beneficial Owners in a way and within deadlines prescribed by the ordinance (art. 153(4) AMLTF Law). Fines ranging from HRK 5 000 to 75 000 (EUR 675 to 10 120) can be imposed on members of the management board or another person responsible for the legal person, or the trustee of the trust who does not record the information in the Register of Beneficial Owners (art. 153(5) AMLTF Law).

102. The information contained in the Register of Beneficial Owners will be available to reporting entities. AML service providers will have access to the Register and will be able to crosscheck the information, while conducting their own BO analysis through customer due diligence measures. Representatives of the banking sector met during the onsite visit confirmed that they are not allowed to rely solely on information contained in the BO Register, but are obliged to conduct the necessary checks and keep the relevant documentation to prove that CDD measures have been carried out. If an obliged entity notices a discrepancy, it can report the discrepancy and/or file a suspicious transaction report (STR) with the Anti-Money Laundering Office (AMLO), Croatia's Financial Intelligence Unit.

103. At the time of the onsite visit, the Croatian authorities were in the process of drafting a further revision of the AMLTF Law, to harmonise it with the 5th EU AMLD to make the Beneficial Ownership Register public and to make it mandatory for obliged entities to report discrepancies. The new amendments are planned to enter into force on 1 January 2020.

104. The supervision of the Register of Beneficial Owners is done by the Financial Agency and the Tax Administration. The Financial Agency is responsible for carrying out the supervision of the BO Register based on the verification of the data in the Register (Article 36 AMLTF Law). The Financial Agency is responsible for verifying whether the information on the beneficial owner has been entered into the register. It will establish if the legal entity has recorded the data referred to in Article 33 in a way and within deadlines prescribed in the ordinance establishing the BO Register in practice. The IT system has been designed so that only natural persons can be identified as beneficial owners through their PIN. The system will automatically crosscheck the reference entered with the PIN database, to make sure the name of the person linked to the PIN is correct. If the beneficial owner is a foreign natural person, the identity information (i.e. date of birth; number of the ID card, date of validity, date of issuance) will have to be entered into the system. The Financial Agency can start misdemeanour proceedings.

105. Once the information has been entered into the register, an important part of the supervision will be carried out by the Tax Administration, which does onsite investigations, conducts audits and makes sure that the information entered into the register is accurate and up to date. The Croatian authorities indicated that once the BO Register will be in place, the Tax Administration will dedicate part of its resources to control effectively the accuracy of the information provided in the register. As indicated under A.2 below, Croatia has a thorough audit system.

Silent partnerships

106. The Companies Act allows for the establishment of a silent partnership, under which agreement a person (the silent partner) invests a certain economic value into another person's undertaking (the public partner or entrepreneur). On the basis of this investment, the silent partner acquires the right to participate in the profit and loss of the business of the entrepreneur. The public partner or entrepreneur is the only party of all legal transactions and is the exclusive holder of all rights and duties (s. 148 Companies Act). The Financial Inspectorate also highlighted that politically exposed persons are not allowed to enter into such partnerships (Act on the Prevention of Conflicts of Interest and Act on the National Council for the Judiciary).

107. Although silent partnerships are not relevant legal entities or arrangements, nevertheless, they may be of relevance for the identification of beneficial owners of the entities and arrangements in which they are active. The Croatian authorities clarified that the silent partner should declare the income acquired under the silent partnership for tax purposes. If such income were declared, the Tax Administration would therefore have access to the contract between the partners. The Financial Inspectorate (under the responsibility of the Ministry of Finance), clarified that a service provider must identify the silent partner when conducting CDD, if he/she meets the definition of being a beneficial owner, but since these agreements are not subject to publicity, the AML obliged person may only know about the existence of the agreement if it were to be reported in the books and records of the company and/or self-declared by the entrepreneur. Representatives of the banks met during the onsite visit experienced such cases and said that they were able to identify a customer acting in the name of someone else (a silent partner) by monitoring transactions. However, there is no obligation for a silent partnership to engage with service providers, e.g. by having an external accountant (they can have internal accounting and bookkeeping procedures).

108. In addition, a legal entity signing a silent partnership would have to inform the Beneficial Ownership Register as from 2019 (see beneficial ownership section below) about the name of the silent partner, in case he/she is a natural person and has "control by other means". It remains to be seen if the establishment of the Beneficial Ownership Register would further facilitate the identification of beneficial owners or silent partners of entities and arrangements where contributions were made through silent partnership contracts. As noted above, Croatia is recommended to ensure that the new obligations regarding the Beneficial Ownership Register are effectively implemented in practice. This includes ensuring that whenever a silent partnership is entered into, the related entity identifies the silent partner as a beneficial owner each time he/she meets the definition of being a beneficial owner.

Availability of beneficial ownership information in practice in relation to EOI

109. During the current review period, Croatia was not expressly asked to provide beneficial ownership information by its EOI partners. However, should such a request arise in practice, Croatia considers it has all the procedures in place, and information available to provide its EOI partners with beneficial ownership information.

110. To sum up, beneficial ownership information is available in Croatia through the implementation of the AMLTF Law by AML obliged entities, and will be reinforced by the implementation of the Beneficial Ownership Register as from 2019. It is recommended that Croatia ensure that the new obligations regarding the implementation of the Beneficial Ownership Register are effectively implemented in practice.

A.1.2. Bearer shares

111. As described in the 2016 Report (paras. 76-79), the Croatian law allowed for circulation of bearer shares of joint stock companies issued prior to 2008. Certain measures allowed for the identification of holders of these shares and the number of such shares appeared to be rather limited without severe systemic impact on availability of ownership information in Croatia. The 2016 Report nonetheless recommended Croatia to take measures to ensure that information on all holders of bearer shares that are still in circulation is available.

112. A new Anti-Money Laundering and Terrorism Financing Law was adopted on 27 October 2017 (Official Gazette no. 108/17). Article 50 of the AMLTF Law prescribes that reporting entities should conduct enhanced customer due diligence when the customer is a legal entity issuing bearer shares or a natural or a legal person conducting transactions in connection to bearer shares.

113. Articles 32-36 of the AMLTF Law foresee the establishment of a Beneficial Owner Register, and data on beneficial owners of companies have to be directly available to the Financial Agency, other competent authorities and AML obliged entities. Information on beneficial owners of companies, including holders of bearer shares if such holders are beneficial owners of the companies, should be registered and available to anybody who may prove a legal interest in obtaining such information.

114. However, no direct requirement in Croatian law requires the conversion of issued bearer shares issued prior to 2008 into registered shares or other measure ensuring that the holder of such shares is identified. In practice, the number of bearer shares still in circulation is very limited and linked

to the transformation process from socially owned enterprises to private companies carried out in the 1990s. This is also confirmed by the fact that out of 721 joint stock companies registered with the CDCC (representing 83% of all joint stock companies in Croatia), whose shares are issued in dematerialised form, only 6 members issued bearer shares in the past. The joint stock companies, which have issued bearer shares prior to April 2008 represent 0.8% of joint stock companies registered with the CDCC. In addition, the number of bearer shares issued by those companies represent 0.01% of all issued shares. The Croatian authorities also confirmed that no joint stock company out of the 152 joint stock companies not registered with the CDCC has issued bearer shares in the past. Croatia also indicated that the holders of those shares usually do not have voting rights attached to them, nor a payable dividend, and the value of all shares is low.

115. The Croatian law allows for circulation of bearer shares of joint stock companies issued prior to April 2008. There are certain measures which allow identification of holders of these shares and the number of such shares is rather limited without severe systemic impact on availability of ownership information in Croatia. Croatia is recommended to ensure that ownership information on the holders of such shares which are still in circulation is available.

A.1.3. Partnerships

116. The concept of "partnership" as understood in common law jurisdictions does not exist in Croatia. The Croatian legal and regulatory framework ensures that ownership information regarding domestic partnerships is available. Regarding foreign partnerships, new obligations allow the relevant authorities to identify all partners.

117. The following types of partnerships can be formed in Croatia:

- Partnerships with legal personality:
  - General partnership – a partnership of two or more legal or natural persons who have joined in order to permanently engage in an activity under a common firm name, whereby each member of the partnership has unlimited joint and several liability to partnership's creditors with all his/her assets.
  - Limited partnership – a partnership of two or more legal or natural persons who have joined in order to permanently engage in an activity under a common firm name, of which at least one has unlimited joint and several liability for the partnership's obligations with all his/her assets (general partner) and at least one is liable for the company's obligations up to the amount of assets contributed to the partnership company (limited partner).

  - Economic interest grouping (EIG) and European Economic Interest Grouping (EEIG) – a legal person formed by two or more natural and legal persons in order to facilitate and develop the performance of economic activities in such a manner that such legal person does not make profits for itself. The grouping does not have share capital and its activity should be related to the economic activities of its members and must not be more than ancillary to those activities.
- Partnerships without legal personality:
  - Contractual partnership – an association of persons and property where two or more persons mutually undertake to contribute their work and/or property to achieve a common objective.
  - Silent partnership – an agreement by which a person (silent member) invests a certain economic value into another person's undertaking (entrepreneur), on the basis of which the silent partner acquires the right to participate in the profits and losses of the entrepreneur.

Type of partnership	Governing law	Statistics as at December 2017	Statistics as at September 2015
General partnerships	Companies Act	223	251
Limited partnerships	Companies Act	57	73
Economic Interest Grouping (EIG) and European Economic Interest Groupings (EEIGs)	Companies Act and Council Regulation on the Statute for a European Company	51	70
Contractual partnerships	Civil Obligation Act	No data available	No data available
Silent partnerships	Companies Act	No data available	No data available

118. Contractual and silent partnerships do not have any legal personality and cannot hold real estate, own assets or legal entities. As such, they have no ability to generate income or credits for tax purposes and cannot carry on business in their own name. Therefore, these arrangements are not under the scope of the standard. Such partnerships can be characterised as a contract, and are not relevant under section A.1.3 (see A.1.1).

Identification of partners

119. Partnerships with legal personality (including EIG and EEIG) and foreign partnerships permanently conducting business in Croatia are required to register with the Commercial Register. Domestic partnerships obtain their legal personality upon registration. The same general rules as in case

of companies apply. Domestic general and limited partnerships, EIGs and EEIGs have to provide identification of all their partners upon registration and inform the Register of any change of partner. This information includes the name, address of residence and PIN of each partner (ss. 29, 30 and 32 Court Register Act).

120. Identity information on all partners is available through the partnership contract establishing relations among partners. No person can become a partner in the partnership without consent of all the existing partners and leaving the partnership becomes effective only upon notification of the remaining partners. As a result, all partners know the identity of all other partners and the information is registered in the Commercial Register. Foreign partnerships are not required to provide identification of all their partners to the Commercial Register.

Tax law requirements

121. All partnerships are required to be registered with the Tax Administration (article 68 General Tax Act).

122. Information on partners of partnerships registered in the Commercial Register is automatically available with the Tax Administration, in the same way as for companies (see paras 84-87 of the 2016 Report). In addition, partnerships with legal personality are required to report information on partners in certain situations, i.e. if it participates in the system of affiliated entities or the other person which holds its majority rights (s. 58 General Tax Act). Further, certain tax positions require that the partnership disclose its ownership structure to the tax administration in its annual filing (e.g. transfer pricing, utilisation of tax losses, and exemption of dividend payments).

123. Contractual partnerships without legal personality are tax transparent and the identity of all partners has to be made available to the Tax Administration. Income (or loss) generated through the partnership is considered joint income of its partners which is divided among them pursuant to a partnership contract delimiting their contributions to the partnership. Partners generating joint income have to appoint a representative partner in charge of the partnership's tax compliance and filing of tax returns (s. 34 Income Tax Act).

Beneficial ownership

124. To the extent that a partnership, with or without legal personality, engages an AML obliged entity, such as a bank, a notary, a tax advisor or a corporate service provider, the obliged entity is required to identify the customer and carry out customer due diligence procedures, including to identify beneficial owners. Beneficial ownership information would be available with the service provider.

125. As from 2019, partnerships with legal personality should register their beneficial owners with the Financial Agency, and as from 2020, AML obliged entities will have to notify any discrepancies they notice with the register.

126. During the onsite visit, representatives of banks confirmed that they could identify beneficial owners of partnerships during the period under review. When a partnership would be misused, they were able to identify it through the monitoring of transactions, which would lead to the filing of a STR and the termination of the business relationship.

Foreign partnerships

127. The same tax rules and filing requirements as for domestic partnerships apply to foreign partnerships generating taxable income in Croatia. The 2016 Report highlighted that information on partners of foreign partnerships was required to be available in Croatia in a majority of cases. However, as in the case of foreign companies (see A.1.1), obligations to identify all partners may not cover all foreign partnerships as this is linked to certain conditions, such as engaging with an AML service provider. Croatia was therefore recommended to ensure that information on all partners in all foreign partnerships carrying on business in Croatia or deriving taxable income therein is consistently available.

128. However, the onsite visit confirmed that foreign partnerships have to be registered with the Tax Administration, in the same way as foreign companies as the Tax Administration is the competent registration authority for foreign legal and natural persons. In addition, AML obliged entities met during the onsite visit also confirmed that they could identify the partners of foreign partnerships, and would not enter into a business relationship would it not be possible. Nevertheless, in the same way as for foreign companies, information on all partners of foreign partnerships in Croatia may not always be available in Croatia. Croatia should therefore address this limited gap (see Annex 1).

129. To sum up, AML obliged entities ensure that the information on partners and beneficial owners of foreign partnerships is available in practice in a majority of cases. Foreign partnerships are also required to be registered with the Tax Administration. As from 2019, beneficial ownership information on partnerships with legal personality will have to be registered in the Beneficial Ownership Register. Therefore, Croatia should ensure that the new obligations regarding the Beneficial Ownership Register are effectively implemented in practice, including regarding domestic and foreign partnerships.

Oversight and enforcement

130. The same oversight framework applies for domestic and foreign partnerships with legal personality as in the case of companies.

Availability of partnership information in EOI practice

131. No peer requested information concerning a partnership during the period under review.

A.1.4. Trusts

132. Croatian law does not recognise the concept of trusts and Croatia is not a party to the Hague Convention on the Law Applicable to Trusts and on their Recognition.[5] However, there are no restrictions for a resident of Croatia to act as a trustee, protector or administrator of a trust formed under foreign law. The 2016 Report concluded that the Croatian tax and AML legislation ensure that information is available regarding the settlor and beneficiaries of a foreign trust operated by a Croatian trustee (see 2016 Report, paras. 91-97). The Croatian tax law requires all residents (individuals and legal entities) to pay income tax on all of their income, regardless of the location of the source of wealth of such income, provided that they are beneficiaries of such assets and income. If a professional or non-professional trustee receives any kind of income, being the legal owner of the income-generating asset, and as they would be a tax resident in Croatia he/she would be subject to taxes in Croatia and would be required to declare the income to the Tax Administration (s. 5 Profit Tax Act, art. 39, 56-59 and 64-69 of the Income Tax Act).

133. The scope of the AMLTF Law covers trusts formed under foreign law and Croatian residents acting as a trustee, protector or administrator of a foreign trust. Any person providing services by way of business in the framework of a trust or any similar contractual relationship under foreign law becomes a service provider under the AMLTF Law and is subject to AML requirements (Article 9 paragraph 17.f). As from 3 June 2019, a Croatian resident acting as a trustee (professional or non-professional), administrator or protector of a trust formed under foreign law will be obliged to input the information on the beneficial owner(s) of trusts in the Beneficial Ownership Register.

134. Regarding customer due diligence measures applied with respect to foreign trusts and other similar legal arrangements, the 25% threshold for trusts has been removed in the new AMLTF Law. Article 28 of the AMLTF Law defines the beneficial owner of trusts and entities equal to them, incorporated under a foreign law, as any natural person (or more of them) who

5. www.hcch.net/index_en.php?act=conventions.text&cid=59.

eventually controls the trust or the entity made equal to it but incorporated under a foreign law, through direct or indirect ownership of other means. Article 31 further describes that reporting entities should identify and verify the identity of settlor(s), trustee(s), a protector if any, beneficiary(ies), a person performing equal or similar functions, or any other natural person who exercise, through direct or indirect ownership or other means, the ultimate control over the trust or the entity equal to it, incorporated under a foreign law. If the trustee is a corporate trustee, the AML obliged entities should find the natural persons who own or exercise the ultimate control over the trust. This definition is in line with the standard.

135. Even in the event that a foreign trust is not registered in the BO Register (because it has no trustee or administrator resident in Croatia), a Croatian bank would still be obliged to conduct due diligence measures, where a trustee was opening an account or entering into a transaction with the bank, and the BO information would be kept by the reporting entity and accessible to the supervisory authority.

136. In practice, representatives of the banks met during the onsite visit had no experience of opening an account for a person acting as a trustee of a foreign trust. They stated that if that would happen, the trustee would be required to provide the documentation with the identity of the beneficial owners. They also confirmed that one bank had a conversation with the Central Bank regarding a trust in the ownership structure of a client. The Central Bank clarified that the bank should always request the trust deed and go until the end of the ownership chain. The Croatian Central Bank confirmed that when banks have doubts on how customer due diligence procedures should be done with respect to legal arrangements, they would contact the National Bank on the interpretation of the law.

Oversight and enforcement

137. Croatian residents acting as trustees of trusts and similar arrangements incorporated under a foreign law are obliged to have a PIN in Croatia on the basis of the Act regulating the personal identification number. In addition to the trustee, foreign trusts with tax consequences in Croatia would also have a PIN. The Tax Administration is responsible for issuing PIN to foreign trusts and their trustees and is therefore in charge of their supervision. In practice, during the onsite visit, the Croatian authorities were not aware of having assigned a PIN to foreign trusts.

Availability of trust information in practice

138. No peer requested information concerning a foreign trust during the period under review.

A.1.5. Foundations

139. Different types of foundations can be established under Croatian law:

- A foundation – a property intended to by itself or by obtaining a profit from it, permanently serves to achieve some general or charitable purpose (Article 2 of the Law on Foundations[6]).
- A foundation up to five years – funding is a property intended to serve a general or charitable purpose over a period of time of no more than five years.
- Representation of a foreign foundation – a foreign foundation may, on the principle of reciprocity, establish in Croatia its own representative office through which it carries out its activity in accordance with Croatian regulations. The Representation of the foreign foundation is considered as established on the date of entry into the Register of Representatives of Foreign Foundations.

Type of foundations	Governing law	Statistics as at December 2017	Statistics as at November 2015
Foundations	Law on Foundations	242	225
Foundations (up to five years)	Law on Foundations	10	10
Representation of a foreign foundation	Law on Foundations	9	5

140. Foundations can be established only for beneficial or charitable purposes and their assets cannot be distributed to their founders. This was confirmed in practice by the representative of the Register of Foundations during the onsite visit. They are therefore of non-relevance for the work of the Global Forum. Nevertheless, information on foundations' founders and representatives is available with the Register of Foundations and the tax authority (see 2016 Report, paras. 98-102). In addition, information on the beneficial owner(s) of foundations is required to be recorded in the Register of Beneficial Owners (art. 32(1) AMLTF Law).

Other relevant entities and arrangements

141. The Croatian law provides for the creation of an association, defined as any form of a voluntary grouping of at least three natural or legal persons which, in order to protect and promote issues of public or mutual interest and without the intention of gaining profit, submit themselves to the rules

6. Official Gazette 36/95, 64/01.

that govern activities of that form of association (s. 2 Law on Associations). Associations can be established as follows:

- An association – an association is every form of free and voluntary association of more than one physical or legal person to protect their prosperity or commitment to protect human rights and freedoms, environmental protection and natural and sustainable development, and humanitarian, social, cultural, educational, scientific, sports, health, technical, information, professional or other beliefs and objectives that are not in conflict with the Constitution and the law, without the intention to acquire profits or other economic appraisals, are subject to the rules governing the organisation and operation of that form of association.
- A foreign association – a foreign association is an association or other form of association established without the intention to acquire profits, and in accordance with Article 4 of the Law on Associations, is well-founded on the basis of the legal order of a foreign state.

Type of associations	Governing law	Statistics as at December 2017	Statistics as at November 2015
Associations	Law on Associations	52 244	N/A
Foreign associations	Law on Associations	142	N/A

142. As described in the 2016 Report (paras. 103-107) and as in the case of foundations, associations appear to be of limited relevance for the work of the Global Forum as they cannot be established for profit making purposes and their assets cannot be distributed to their members. Associations can generate revenues for the sole purpose for which they are established. Information on association's founders, representatives and beneficiaries is however required to be available primarily with the association. In addition, information on the beneficial owner(s) of associations is required to be recorded in the Register of Beneficial Owners (art. 32(1) AMLTF Law).

A.2. Accounting records

Jurisdictions should ensure that reliable accounting records are kept for all relevant entities and arrangements.

143. The Croatian legal and regulatory framework ensures the availability of accounting information in line with the standard, except in a particular case of companies that ceased to exist. Indeed, it is not mandatory for companies deleted ex officio from the Commercial Register to provide the Commercial

Register with their accounting records, contrary to the general rule for liquidated companies. The implementation and enforcement of accounting obligations is in line with the standard.

144. During the current review period (2015-17), Croatia received 48 requests for accounting information and provided a response, in a timely manner, in all but one case. One case arose where Croatia was not able to provide the information because the company ceased to exist, and had not deposited the information to the Commercial Register. Croatia should ensure that its legal framework and its implementation allow for the availability of accounting documentation in practice in all cases, including when an entity ceases to exist.

145. The new table of recommendations, determination and rating is as follows:

Legal and Regulatory Framework		
Deficiencies identified in the implementation of the legal and regulatory framework	**Underlying Factor**	**Recommendations**
	When a company is deleted ex officio from the Commercial Register, the relevant documentation is not always available with the Commercial Register or the Tax Administration.	Croatia should ensure the availability of accounting records after an entity or arrangement ceased to exist.
Determination: The element is in place but needs improvement		
Practical Implementation of the standard		
Rating: Largely Compliant		

A.2.1. General requirements

146. General accounting requirements under Croatian law are contained mainly in the Accounting Act and the General Tax Act.

147. As described in the 2016 Report (paras. 120-125), all entities covered by the Companies Act as well as taxpayers including resident trustees (hereafter accounting units) are covered by accounting obligations contained in the Accounting Act (s. 2 Accounting Act). Accounting units are obliged to collect and prepare bookkeeping documents, keep business books and draw up financial statements in accordance with the relevant accounting standards and basic principles of orderly bookkeeping (s. 4(2) Accounting Act).

148. A bookkeeping document is a written document or an electronic record of a business transaction, and is entered into accounting books.

Accounting books contain accounting diary, general account ledger (a systemic bookkeeping record allowing to assess changes in the financial position and business performance of the accounting unit), and subsidiary ledgers. Each accounting unit is required to prepare annual financial statements, comprising a balance sheet, a profit and loss account, a cash flow statement, statement on changes in equity and notes to the financial statements, in accordance with the Croatian Financial Reporting Standards.

149. Annual financial statements of medium and large sized accounting units[7] and of entrepreneurs whose shares are listed on an organised securities market are required to be audited by certified auditors and filed with the Financial Agency, which enters them into the Register of Annual Financial Statements (ss. 20 and 21).

150. The Accounting Act requires that accounting documentation and records have to be available to the Tax Administration for inspection (s. 28 Accounting Act). Administrative and criminal sanctions are applicable in respect of responsible persons of the accounting units who do not comply with provisions of the Accounting Act. A fine ranging from HRK 10 000 (EUR 1 310) to HRK 0.5 million (EUR 65 690) should be applied by the Tax Administration if an accounting unit fails to maintain bookkeeping documents or accountings books, fails to prepare annual financial statements in accordance with the accounting law or fails to have its annual financial statements audited and filed in the Register of Annual Financial Statements (ss. 31 and 32 Accounting Act).

Tax law

151. Accounting obligations under accounting law are further supported by accounting rules contained in tax law applicable in respect of all taxpayers. The tax base for income tax is the profit, determined pursuant to the accounting regulations. Accounting books and accompanying documents have to be kept and should be available in a timely manner to the Tax Administration.

A.2.2. Underlying documentation

152. Accounting and tax requirements ensure that underlying documentation is required to be available in Croatia in line with the international standard for keeping and maintaining underlying documentation.

7. Medium and large size accounting units are those which exceed two of the following conditions: (i) total assets of HRK 15 million (EUR 2. million); (ii) annual total revenue of HRK 30 million (EUR 4 million); (iii) average number of employees in the course of the financial year amounts to 25 (s. 3 Accounting Act).

153. Under accounting law, an accounting unit is required to keep bookkeeping documents. Under tax law, accounting entries and underlying documentation are required to be complete, accurate, timely and kept in an orderly manner. In addition, as Croatia is an EU Member State and hence part of the intracommunity VAT system, Croatian undertakings must fulfil specific requirements regarding documentary evidence of transactions performed.

154. Accounting records and underlying documentation have to be kept for at least eleven years since the end of the financial year to which they relate (s. 7 and 10 Accounting Act). The retention period under accounting law varies based on the type of documentation:

- Annual financial statements, pay-roll records and records of statutory contributions must be kept permanently.
- Accounting diary, the general accounts ledger and bookkeeping documents forming the basis for entries into them, subsidiary ledgers and documents forming the basis for entries into them must be kept for a minimum of 11 years.

155. Accounting books and bookkeeping documents as well as other records must be kept for tax purposes for at least ten years by the taxpayer from the beginning of the year following the year in which the tax has been assessed, regardless of liquidation or dissolution of the taxpayer (s. 66 General Tax Act). In addition, annual financial statements filed with the Financial Agency are kept in the Register of Annual Financial Statements with no provision limiting the time period for which it should be kept.

156. In practice, representatives of the accounting sector met during the onsite visit confirmed that there were cases where accountants terminated a business relationship with a client because they were not complying with the Accounting Act. Accountant associations organise regularly education on regulations and proceedings with regard to bookkeeping requirements, and other provisions contained in the Accounting and AML laws.

Oversight and enforcement of requirements to maintain accounting records

Tax audits

157. The Tax Administration performs compliance checks with the accounting obligations of taxpayers when carrying out an audit (General Tax Act, Articles 115 to 126). During the onsite visit, the tax audit department explained that if a taxpayer fails to provide accounting records during a tax audit, the Tax Administration would issue conclusions asking the taxpayer, or the accounting company in charge of the accounts to provide the

information. If the information is not provided, sanctions would apply and the Tax Administration would estimate the income.

158. The tax audit department highlighted that the decision to open a tax audit is linked to a risk management system, taking into account a number of variables, including the fact that a taxpayer did not file a tax return. The risk system is divided in two areas: field offices are in charge of 70% of the audits, and the audit service is in charge of risky taxpayers and complex cases (30% of the audits). Tax filing compliance in Croatia is generally good: in 2015, 4.78% of companies (6 219 companies out of 130 203) failed to submit their profit tax returns. This ratio was 5.17% (6 906 companies out of 133 637) in 2016 and 6.24% in 2017 (8 569 companies out of 137 234).[8]

159. In practice, the number of inspectors increased in 2017 following the reform of the Tax Administration. The number of tax audits and misdemeanours identified are indicated in the table below. Croatia indicated that the high number of tax audits carried out in 2015 was linked to the enforcement of the recently launched fiscalisation system whereby merchants and retail suppliers transfer bills to the tax administration in real time through an IT system.

	2015	2016	2017
Tax inspectors	545	523	668
Tax audits	15 948	10 772	11 377
Misdemeanour	2 486	2 336	1 910

160. To conclude, Croatia has a thorough audit system in place to ensure compliance with accounting obligations.

Inactive companies and companies that ceased to exist

161. In Croatia, there is no use of the term "inactive company". The Commercial Court distinguishes the companies registered in the Commercial Register and companies that have been deleted from it.

162. The deletion of a legal entity from the register takes place after liquidation or bankruptcy proceedings have been carried out. On the other hand, a company may be deleted from the court register ex officio. The Commercial Court performs the procedure of deleting a company from the Register ex officio in a number of cases, including if it has not acted in accordance with the statutory obligation to publish its annual financial statements for three consecutive years (Article 70 of the Law on Commercial Register). Failure to submit annual financial reports to the Commercial Register or submitting

8. Data for 2017 are still in progress as the number of submitted tax returns was not final.

them after the prescribed period is an offence punishable by HRK 50 000 (EUR 6 720) (Article 630, paragraph 1, item 6a of the Companies Act). The statistics regarding the deletion of companies over the peer review period are as follows:

	2015	2016	2017
Bankruptcy	2 084	11 239	8 915
Liquidation	669	862	1 069
Deletion ex officio	4 563	2 479	2 795
Total of deleted companies (including other causes of deletion, e.g. companies with no assets)	7 893	15 141	13 305

163. The company against which the procedure for deletion has been initiated and any person having a legitimate interest that the subject of the entry is not removed from the register may file an objection against the decision to initiate the deletion procedure in the following cases:

- if there are no reasons for deletion
- if the liquidation procedure, pre-instalment settlement or bankruptcy proceedings is open
- if a proposal for opening a pre-merger settlement or bankruptcy procedure has been submitted.

164. The deadline to file an objection is prescribed in the court decision (Article 16. paragraph 2 of the Law on Commercial Register), which is, in accordance with the judicial practice, 30 days from the date of publication of the decision to initiate the deletion procedure.

165. The Croatian authorities noted in practice that if a company has not filed its annual financial statements for three years, it usually does not have assets. After the deletion has been finalised, the company cannot be revived. If a company does have assets, the company is liquidated upon the deletion ex officio from the register. In such cases, interested parties having rights (e.g. Tax Administration, a shareholder) contact the court regarding the assets and a liquidator can be appointed.

166. When a company is liquidated, the liquidator has to present the documents (business books and other relevant documentation) to the Commercial Court to close the liquidation proceedings. Documents and business books have to be kept permanently with the Commercial Court (Archiving Act). A representative of the judiciary confirmed that this is what is done in practice. A representative of the Bar Association met during the onsite visit indicated having once consulted the archives of the Commercial Court and found the accounting information needed. However, it is a common view that it would take time to

retrieve data in the archives, as most of them are in a paper form and the archives contain a massive volume of accounting information on liquidated companies.

167. When a company is deleted ex officio, it is not mandatory to bring the relevant documents to the Commercial Court. Representatives of the Commercial Court met during the onsite visit could not explain what happens to business books in such cases. The Croatian authorities clarified that all data (including ownership information and annual financial statements) in the register are kept permanently, even for deleted companies. However, data included in the register do not cover all accounting information that should be available according to the standard.

168. Companies that ceased to exist are not deleted from the Register of Taxpayers maintained by the Tax Administration for tax purposes, even when the Regional Court in charge of the Commercial Register struck them off from the Commercial Register. The statute of limitation for the Tax Administration's rights and obligations to determine the tax liability and interest is six years from the date the statute of limitation begins to run (Article 108 of the General Tax Act).

169. In practice, when regional offices need to find information about a company that has ceased to exist, they usually look for other information (e.g. bank account, address). They can go to the archive of the Commercial Court if the statute of limitations has not expired. If the deletion is not yet finalised, the Tax Administration can approach the court to stop the liquidation proceedings, indicating the auditing process, and the Tax Administration would get priority to recover assets from the liquidation process.

170. In addition, the Tax Administration distinguishes between companies that have been deleted from the Commercial Register and those that stopped declaring income, but are still registered in the Commercial Register. The Tax Administration monitors companies that are registered in the Commercial Register but are economically inactive or did not yet start to declare incomes.

171. To sum up, Croatia's legal framework and implementation allow for the availability of accounting information in a majority of cases. When a company is liquidated, accounting obligations ensure that underlying accounting documentation is available with the Commercial Court. However, when a company is deleted ex officio from the Commercial Register, the relevant documentation is not always available with the Commercial Register or the Tax Administration. Croatia should ensure the availability of accounting records after an entity or arrangement ceased to exist.

Availability of accounting information in practice in relation to EOI

172. During the period under review, 48 requests for accounting information were made (9 on natural persons and 39 on legal persons). Croatia

responded successfully, in a timely manner, to all of them except for one. A peer indicated that the accounting information requested was not available because the company had been subject to bankruptcy proceedings, the conclusion of which was for the company to be deleted ex-officio by the Court Registry. The company was non-compliant with its obligations for several years, and was put under bankruptcy proceedings at the request of the Financial Agency. Croatia explained that the Court was not in possession of the business books and other relevant documentation. The bankruptcy administrator however indicated to the Croatian Tax Administration that the accounting information would be in possession of the one shareholder of the company before its deletion from the Commercial Register, which was not a Croatian resident. Croatia therefore advised the peer to send a request for information to the jurisdiction where the shareholder was resident.

A.3. Banking information

Banking information and beneficial ownership information should be available for all account holders.

173. In terms of banking information, the 2016 report concluded that banks' record keeping requirements are in line with the standard. The Croatian laws require the availability of banking information, including all records pertaining to the accounts as well as to related financial and transactional information.

174. The EOIR standard requires since 2016 that beneficial ownership information (in addition to legal ownership) in respect of account holders be available. In this regard, the relevant legal framework is the AMLTF Law, which foresees a series of ways to identify the beneficial owner(s) of bank accounts, and establishes a Register of Beneficial Owners, which will capture most account holders.

175. In practice, the report concludes that the legal provisions are implemented and that banking and beneficial ownership information of account holders are available in Croatia.

176. During the current review period, Croatia received 64 requests for banking information. Peers were satisfied and Croatia was able to provide the information requested in a timely manner.

177. The new table of recommendations, determination and rating is as follows:

Legal and Regulatory Framework
Determination: The element is in place
Practical Implementation of the standard
Rating: Compliant

A.3.1. Record-keeping requirements

Availability of banking information

178. The main rules regarding availability of customer and transactional information on bank accounts are contained in the new AMLTF law, which entered into force on 1 January 2018. The law applicable during the peer review period (2015-17) was the former AML Act, which contained similar requirements regarding the availability of banking information (see 2016 Report, paras. 139-150).

179. Banks are prohibited to open or keep anonymous accounts, coded or bearer passbooks for customers, or other anonymous products, including accounts in false names, which would indirectly or directly enable the concealment of the customer's identity (Article 54 AMLTF Law).

180. Banks are required to conduct customer due diligence measures (i) when establishing a business relationship with a customer; (ii) when carrying out a transaction amounting to HRK 105 000 (EUR 13 740) or more; (iii) when carrying out an occasional transaction constituting a transfer of funds exceeding EUR 1 000 (in terms of the Regulation (EU) 2015/847); (iv) in case of doubts about the veracity or adequacy of previously obtained data on a customer; or (v) in all instances where there are reasons for suspicion of money laundering or terrorist financing in relation to a transaction or a customer, regardless of all prescribed exemptions and transaction value (Article 16(1) AMLTF). Reporting entities that are unable to implement due diligence measures required under the law are not allowed to establish a business relationship or to carry out a transaction, and if such a relationship already exists, it should be terminated and the obliged entity should consider reporting it to the Anti-Money Laundering Office (Article 19(1)).

181. Customer due diligence measures include (i) identifying the customer; (ii) identifying the beneficial owners of the customer and verifying their identity; (iii) collecting data on the purpose and intended nature of the business relationship or transaction; and (iv) conducting ongoing monitoring of the business relationship (Article 15(1)).

182. During the performance of the customer due diligence, banks are required to collect at least the following information:

- for a natural person: name and surname, permanent residence, date of birth, identification number, name and number of the identification document and country of the issuer, and citizenship
- for a natural person, the transaction is intended for: name and surname, permanent residence and the data on the national person's identification number if available

- for a legal person: name, legal form, headquarters (address and country) and business registration number
- for a legal person, the transaction is intended for: name and headquarters (address and country), and business registration number if available
- for a beneficial owner of the customer: name and surname, country of residence, date of birth and citizenship
- data on the purpose and intended nature of a business relationship, including information on the customer's business activity and date and time of establishing a business relationship
- information on the source of funds subject to a business relationship or transaction.

183. Banks, as AML reporting entities, are required to keep data collected pursuant to their AML obligations and the accompanying documentation for a period of ten years after the execution of a transaction or the termination of a business relationship.

184. Failure to comply with obligations under the AML law are punishable by a fine ranging from HRK 35 000 to HRK 1 000 000 (EUR 4 720 to EUR 134 900). The punishable failures include: failures to comply with CDD obligations, to identify and verify a customer's identity, to document the procedures of identification and verification of the identity of the beneficial owner, to respect the retention period.

185. In addition, the preparation and maintaining of bookkeeping documents is prescribed in Article 160 of the Credit Institutions Act. Documents relating to the opening, closing and recording of changes in payment accounts and deposit accounts, and contracts and other documents related to the establishment of a business relationship have to be kept for at least 11 years (Article 160.2). A credit institution should store its business books for at least 11 years (Article 160.4). Failure to store bookkeeping documents is punishable by a fine ranging from HRK 37 000 (EUR 5 000) and up to 3% of the total income of a credit institution (Article 361 Credit Institutions Act).

186. Croatia has also a single register of bank accounts, which is maintained by the Financial Agency (FINA) (Article 23, Law on Execution of Enforcement of Money (OG 68/2018)). The single register of accounts is an electronic database containing information on all accounts and time deposits, as well as information on housing savings deposits and deposits in credit unions of all natural and legal persons. The single register of bank accounts represents an additional source of information to which the Tax Administration has access.

Beneficial ownership information on account holders

187. The requirement for providing the information on the beneficial owners of account holders is contained in the AMLTF Law. As explained under A.1.1 on beneficial ownership above, financial institutions are obliged to conduct customer due diligence measures before entering into a business relationship with a client. Banks must keep, for each beneficial owner of the accounts: name and surname, country of residence, date of birth and citizenship (Article 20 AMLTF Law).

188. The AMLTF Law also foresees the possibility to conduct simplified due diligence checks if the customer represents low money laundering or terrorist financing risks as established by the National Risk Assessment (Article 43 AMLTF Law). Simplified due diligence checks includes the verification of the customer's identity, but with a reduced frequency of updates, and a reduced scope of ongoing monitoring of transactions. The National Central Bank however specified during the onsite visit that simplified due diligence procedures are not used in practice. Banks use normal and enhanced CDDs.

189. Enhanced customer due diligence measures are prescribed for a number of situations, including when the client is a politically exposed person, is not physically present at the moment of the establishment of the account, or is from a high-risk jurisdiction (Article 44 AMLTF Law). The Central Bank added that banks can also decide themselves if there is another type of suspicion of high risk and conduct enhanced due diligence measures. The enhanced CDDs differ depending on the situation, but generally include additional checks on the source of the wealth and funds, more regular updates of the information, enhanced monitoring of the business relationships, and written consent of the senior management of the financial institution. The frequency of update of information is linked to the money laundering and terrorist financing risks identified (section IX of the AMLTF Law). Reporting entities are obliged to carry out the measures of the ongoing monitoring of a business relationship in relation to the low risk customer as well as for detecting complex and unusual or suspicious transactions. In practice, financial institutions update information on clients on which they perform enhanced CDDs at least every year, but the frequency can differ depending on the risk associated.

190. The Law foresees the possibility for AML obliged entities, including banks, of entrusting a third party in conduction of the customer due diligence measures (Article 38). A contract should be established with the obliged entity, which gathered the BO information for the customer, and the responsibility still rests with the bank. Third persons that carry out the customer due diligence are obliged to deliver to or make directly available to the reporting entity immediately, without any delay, the obtained data on the customer,

beneficial owner and purpose and intended nature of a business relationship (Article 41 AMLTF Law). In practice, representatives of the banks met during the onsite visit explained that they would only rely on CDDs carried out by another member of the same banking group.

191. As explained under section A.1.1, the new AMLTF Law establishes a Register of Beneficial Owners as from June 2019, which will be accessible by all AML obliged entities. It will allow banks to crosscheck the information contained in the Register and notice possible discrepancies. Suspicions of inaccuracies will have to be reported from January 2020 onwards. While the register will give banks an additional tool to perform their CDD obligation, it does not relieve them from their obligation to conduct CDD measures. Underlying documentation should be kept to explain to the supervisor the steps that lead to the identification of the beneficial owner of the account.

Enforcement provisions to ensure the availability of banking information

192. The banking supervision in Croatia is exercised by the Croatian National Bank through off-site (continuous monitoring), on-site supervision and by issuing opinions, authorisations and approvals. During the onsite visit, the Croatian National Bank indicated that when banks have doubts regarding the interpretation of the law, they would contact the National Bank. When producing a reply, the National Bank may consult the Anti-Money Laundering Office and other competent authorities. The Croatian National Bank issued 20 opinions in 2018.

193. The off-site and on-site supervision is based on analysing specific risks and identifying the risk profile of the credit institutions for prudential activities. Examinations and reviews regarding the availability of beneficial ownership information are generally not exercised as separate examinations with this specific focus but rather as a part of standard supervisory procedures for examination of specific risks (i.e. credit risk, funding risk, etc.). As an example, when credit risk is the focus of examination, the supervisors analyse the process implemented by the bank related to credit risk management, which also includes identification and regular monitoring of all relevant information regarding specific clients/debtors, including all information about the ownership structure (and beneficial owners of the specific client). The supervisory process encompasses an analysis of all relevant internal policies and processes of the bank and the review of a sample of credit files in order to confirm the adequate application of the policies in practice. If the bank has not implemented adequate processes or does not have adequate information on its clients, this would be identified as a significant finding and addressed through supervisory measures.

194. As part of the supervision, the banking supervisor is also in charge of the AML/CFT oversight. The supervisory process consists of the analysis of all relevant internal policies and processes of the bank, but also a review of a sample of deposits/accounts in order to confirm the adequate application of these policies in practice. The review includes checks on the documentation provided for each account to establish the beneficial owner and the customer due diligence measures performed. During the onsite visit, representatives of the Central Bank explained that according to their experience, banks refuse to open accounts if they are not able to identify the beneficial owner(s), and close the account if they find suspicious transactions and are not able to identify the beneficial owner(s) of such transactions.

195. A specialised team from the Central Bank carries out the onsite supervision. At least five onsite AML inspections are carried out every year out of 24 banks. The onsite consists of a six-week supervision process with a three-week onsite visit in the premises of the bank. In addition, the Central Bank performs as a minimum one off-site AML inspection per bank every year. This normally entails the analysis of the responses to the AML/CFT questionnaire, annual report and annual report of the Internal Audit function. Other information can be analysed depending on the risk profile of the bank. During the peer review period, no significant findings regarding the lack of beneficial ownership information were identified, given that banks rarely experienced complex cases, and no fines or sanctions were imposed to banks for this specific area. All sanctions are published and are used as a deterrent for the banking sector.

Availability of bank information in EOI practice

196. During the current review period, Croatia received 64 requests for banking information (38 related to natural persons and 26 to legal entities). Banking information requested and exchanged related to account holders, names of authorised persons to operate an account, names of persons who opened an account, balance of accounts for a relevant period, amount of interest paid for a specific account and amount of any tax paid on interest for a specific period. Underlying documentation on bank statements with details on turnover of an account, and documentation about specific transactions were also requested. Croatia provided the information in all cases, and in a timely manner. When all the information was not yet provided by the banks (for example, if historic data had to be obtained from archives), Croatia sent a partial response with the information available and then sent the rest of the information requested as soon as possible. Peers raised no issue concerning the availability of banking information.

Part B: Access to information

197. Sections B.1 and B.2 evaluate whether competent authorities have the power to obtain and provide information that is the subject of a request under an EOI arrangement from any person within their territorial jurisdiction who is in possession or control of such information, and whether rights and safeguards are compatible with effective EOI.

B.1. Competent authority's ability to obtain and provide information

Competent authorities should have the power to obtain and provide information that is the subject of a request under an exchange of information arrangement from any person within their territorial jurisdiction who is in possession or control of such information (irrespective of any legal obligation on such person to maintain the secrecy of the information).

198. The 2016 Report concluded that Croatia's competent authority's ability to obtain and provide information for exchange of information purposes was generally in place. The Croatian competent authority has wide powers to obtain information requested for exchange of information purposes. These powers are supported by enforcement provisions and possible application of coercive measures. However, the report noted that the legal and regulatory framework required some improvements. The 2016 Report recommended that Croatia should remove ambiguity concerning use of access powers regardless of domestic tax interest under EOI agreements that do not contain wording akin to Article 26(4) of the OECD Model Tax Convention. It also recommended that Croatia remove potential ambiguity concerning access to the shareholder register kept by a company. In addition, the exception from the obligation to provide information to the Tax Administration in respect of lawyers, tax consultants and auditors was considered too broad and beyond the standard as it covered all information obtained by them in their professional capacity.

199. Since the 2016 Report, Croatia has amended the General Tax Act to clarify the Tax Administration's access powers for EOI purposes and that domestic powers can be used regardless of domestic tax interest in all cases,

including access to the shareholder register. The legal framework on the professional privilege has not changed, however this has not created issues in practice.

200. During the period under review, Croatia used in a majority of cases the information at its disposal available in its PIN databases to answer requests from its EOI partners. When the information was not already available, the Tax Administration successfully used its access powers, including opening tax audits to answer EOI requests. The Tax Administration has never failed to access the requested information due to issues with its access powers or practice. In the rare cases when the information could not be exchanged, the information was not available.

201. The new table of recommendations, determination and rating is as follows:

Legal and Regulatory Framework		
Deficiencies identified	**Underlying Factor**	**Recommendations**
	The exception from the obligation to provide information to the Tax Administration in respect of lawyers, tax consultants and auditors extends to any information which became known to the professional during the exercise of legal practice.	Croatia should ensure that the scope of professional secrecy is in line with the international standard.
Determination: The element is in place		
Practical Implementation of the standard		
Rating: Compliant		

B.1.1. Ownership, identity and bank information

202. The 2016 Report analysed the procedures applied to obtain information generally and more specific rules for obtaining bank information. Generally, the same rules continue to apply.

203. The competent authority in Croatia for EOI purposes is the Minister of Finance, who delegated the task to the Director General of the Tax Administration. The Croatian competent authority has wide powers to obtain information requested for exchange of information purposes.

Accessing information generally

Accessing information in the hands of the tax authorities or from another government agency

204. As described under section A.1.1, the Tax Administration has access to taxpayers' information through the PIN record. The PIN record is an interconnected system of data from all competent registration authorities, with authorisation rules. This interconnected system of data means that where the Tax Administration may not hold information in its own register of data (which is generally information that is relevant for tax purposes), it may nonetheless continue to have direct access to the information through the interconnected PIN record, without the need to use its access powers. For example, the Ministry of Public Administration and the Ministry of Interior are competent for the registration of natural persons.[9] The Ministry of Justice (through the Commercial courts) is competent for the registration of legal entities. The Tax Administration is competent for the registration of foreign legal and natural persons (where such persons have a liability to tax in Croatia). The Tax Administration has a direct access to all these data.

205. For audit, enforcement and other administrative purposes, the Tax Administration has developed in 2012 a PBZO record (Record of Data Important for Taxation) where it retrieves data on ownership from six institutions, which are competent for the specific person or data. For example, the Tax Administration can retrieve information about ownership of property in real time via the land register maintained by the State Directorate.

206. In practice, in the majority of cases, owing to the type of requests received, the information requested by an EOI partner is already available to the Tax Administration through the PIN record. In other cases, the relevant regional office contacts the information holder.

Accessing information from a taxpayer or third party

207. Domestic powers granted under Article 79 of the General Tax Act are used for obtaining information requested for exchange of information purposes. The Tax Administration has a network of contact points in all regional offices, which are specifically trained on EOI processes. They are responsible for sending a letter to the information holder, monitoring deadlines and ensuring that the relevant information is sent to the EOI unit in the Central

9. Not all persons are automatically registered in the tax register by the act of birth. A person becomes a taxpayer when there is a tax event (e.g. an employment contract, an inheritance decision), but all Croatian citizens would be in the register of the Ministry of Interior.

Tax Administration. The Tax Administration can use the following measures to obtain information relevant to taxation:

- Collect information from a taxable person, another party in the tax proceedings or from any other persons – a person is obliged to provide upon request by the Tax Administration any information which he/she has access to which is relevant for taxation of any taxable person. The requested information has to be provided within eight days from the receipt of the notice by the information holder. The requested information can also relate to assets held or income obtained outside of Croatia as well as to the sources of the person's funds used in the acquisition of business assets or personal property.
- Engage expert witnesses, who can be a tax advisor or expert professionals authorised by court to provide expert opinions
- Obtain documents and records, e.g. provision of accounting documentation, records, business documents and other official papers by a taxable person and other persons who may possess these documents
- Perform on-the-spot investigations for the purpose of determining or clarifying facts relevant to taxation.

208. As indicated in the sample letters provided by Croatia, the regional office contacts the information holder, indicating the legal basis, the identification of the taxpayer and the information requested.

209. In addition, the Tax Administration can launch a tax audit, i.e. a formal tax proceeding to verify or establish facts relevant to taxation of taxable or other persons. A tax audit may be performed on all taxable persons (legal and physical persons) and other persons who possess facts or evidence relative to taxation. A tax audit includes an overview of one or more tax types and all tax-relevant facts, accounting documents and records, business transactions, and any other data, records and documents that are relevant to taxation. Notification of a tax audit should be provided to the audited person not later than eight days prior to the commencement of a tax audit, unless this would jeopardise the purpose of the tax audit, in which case the audited person is notified just before the commencement of the tax audit.

210. The period of the tax audit consists of the period for which the statute of limitation of the right to determine the tax liability did not take place. A tax audit can look into information dating back three years from the beginning of the statute of limitation for the right to establish tax obligations, or six years if some taxable activities took place (see further under section A.2.1). These rules apply to EOIR, but other information gathering measures remain available. Requested information can be sent to an EOIR partner before the end of an audit.

211. In practice, the competent authority indicated during the onsite visit that an EOI request has been the basis for a launch of an audit in several cases during the period under review, e.g. in a case of a missing trader.

212. The 2016 report raised concerns regarding the ability for the competent authority to access the register of shareholders kept by companies. Under the Companies Act, a company may utilise the data in the register only for its tasks relating to the shareholders and it may use the data for other purposes only to the extent that the shareholder does not object. The 2016 Report noted that it was not clear whether "a person could object to allowing access to the shareholder register considering the person's own obligation to provide information relevant for taxation contained in the General Tax Act or whether request concerning the person's share in a company can be considered company's tasks related to the shareholder" (2016 Report, paragraph 160). The Croatian authorities have explained that the provisions of the revised General Tax Act (art. 79) have made the position clear that it is not possible for a person to object to providing information from the shareholder register. During the onsite visit, the audit department confirmed that the information contained in the shareholder register was accessible to the Tax Administration and has been accessed in practice, referencing the provisions. The recommendation is therefore removed.

Accessing beneficial ownership information

213. During the period under review, the previous AML Act was still in force. The beneficial ownership information, as explained under A.1.1, was therefore mainly available through the AML obliged entities conducting customer due diligence measures, and the Tax Administration was able to request information directly from obliged entities. The new AMLTF Law has established a Beneficial Ownership Register. The Tax Administration has direct access to the information contained in the BO Register through the PIN system, and therefore will have access to beneficial ownership information on legal entities and arrangements contained in the Register as from June 2019.

Accessing bank information

214. Under the General Tax Act and the Credit Institutions Act, banks are required to provide banking information upon the Tax Administration's written request.

215. In practice, the template letter for requesting information from a financial institution indicates (i) a reference to the legal basis (articles 72, 79 and 114 of the General Tax Act and article 157, paragraph 3, item 12 of the Credit Institutions Act), (ii) the name of the taxpayer for whom the

information is sought, (iii) the bank account number and (iv) the information requested. It also indicates a deadline within which the information should be provided (generally eight days). The letter does not specify the reason for which the information is requested. Representatives of banks met during the onsite visit confirmed and accepted that they receive no information on the reason of the request from the Tax Administration and do not know if it is linked to an EOI request. They also confirmed the tight deadlines and highlighted that they generally can meet them and that they never received any complaint from the Tax Administration on the quality or timeliness of their answers.

216. The name of the taxpayer (or account holder) does not need to be provided if a bank account number is provided – banks will be able to provide the requested information. The banks also said that while it is easier if there is a reference to the PIN of the taxpayer, the information could also be found only with the name and/or the account number. The PIN provides certainty on the identity of the person, in cases where several persons have the same name or the name is misspelled (especially when the request comes from a jurisdiction that does not use all the same letters and accents on letters as in Croatian). In practice, all requests for banking information received by Croatia included the name of the account holder.

217. Further, banks are required to provide certain banking information to the Tax Administration automatically on transactions on accounts of legal persons and natural persons performing business activities, wherever the activity is performed (Article 114 General Tax Act). The reported information has to be provided cumulatively for the period starting from 1 January each year on a monthly or quarterly basis.

218. Finally, the Tax Administration further explained that as part of the interconnected PBZO record, using PINs it retrieves data in real time from the register of bank accounts maintained by the Financial Agency.

219. The 2016 Report highlighted that obtaining banking information might be subject to domestic tax interest under agreements which do not contain wording akin to the OECD Model Article 26(4). Since then, Croatia has amended article 79 paragraph 1 (previous article 69 paragraph 1) of the General Tax Act in 2016 (Official Gazette 115/2016) thereby clarifying that domestic powers can be used regardless of domestic tax interest pursuant a valid EOI request. Croatia confirmed that they have been able to answer successfully EOI requests on banking information without a domestic interest, providing information on income not taxed in Croatia.

B.1.2. Accounting records

220. The powers described in section B.1.1 relating to information other than information held by a financial institution can be used to obtain accounting information.

221. In a majority of cases, accounting information is available to the Tax Administration through the Tax Administration Register using PIN. The Tax Administration has direct access to the information contained in the Commercial Register, therefore access powers are not needed when collating information from this source. Similarly, financial statements of a legal entity are collected by the Financial Agency and available in real time to the Tax Administration through the Tax Administration Register.

222. If the information is not directly available to the Tax Administration or if doubts arise, the Tax Administration can use access powers for collecting information from the taxpayer or a third party, and can launch a tax audit if needed. For example, tax audits can be launched on the fiscalisation[10] system, regarding invoices issued in area of cash and credit cards payments. In practice, during the period under review, Croatia has launched tax audits to access information in several cases, including to access accounting information in the context of an EOI request.

B.1.3. Use of information gathering measures absent domestic tax interest

223. The concept of "domestic tax interest" describes a situation where a contracting party can obtain and provide information to another contracting party only if it has an interest in the requested information for its own tax purposes.

224. The 2016 Report concluded that the use of access powers regardless of domestic tax interest was not unambiguously provided for under EOI agreements that did not contain wording akin to Article 26(4) of the OECD Model Tax Convention.

225. The Croatian authorities addressed the recommendation and clarified the use of access powers by amending the General Tax Act in 2016 (new article 79 paragraph 1). The new article provides that taxable persons and other persons who have access to information essential for taxation, application of international agreements or record keeping obligations, shall be obliged to provide data needed. The General Tax Act clarifies the Tax

10. This system ensures that merchants and retail suppliers transfer the bill to the tax administration before printing it through an IT system transferring the data in real time.

Administration's access powers for EOI purposes and puts beyond doubt that domestic powers can be used regardless of domestic tax interest pursuant to a valid EOI request in the framework of international tax agreements.

226. In practice, Croatia has been able to exchange information on which Croatia had no domestic information, e.g. on income not taxed by Croatia (see further section C.1.4).

B.1.4. Effective enforcement provisions to compel the production of information

227. Croatia has in place effective enforcement provisions to compel production of information. Administrative and criminal sanctions are available to the Tax Administration in case of non-compliance with obligations to provide the requested information. Sanctions are ranging from a fine up to HRK 500 000 (EUR 65 650) against a legal person (including a bank), and up to HRK 40 000 (EUR 5 250) against a responsible individual person who caused the failure to a prohibition of business activity. If the failure to provide information leads to undeclared tax in the amount of exceeding HRK 20 000 (EUR 2 260) criminal sanctions apply including an imprisonment of up to five years (s. 256 Criminal Code). In addition, the Tax Administration can exercise search and seizure powers (see the 2016 Report, paras 165-167).

228. For obtaining the requested information, the Tax Administration may perform on-the-spot investigations, tax audits, and seize the relevant information and documents (art. 79, General Tax Act). A new branch for tax and anti-fraud investigations has been created in 2016 with broader access powers, similar to those of customs. During the period under review, tax auditors have not had to apply sanctions or use seizure proceedings in the context of an EOI request.

B.1.5. Secrecy provisions

229. There are two types of secrecy or confidentiality provisions that are relevant for the purposes of this section: bank secrecy and professional secrecy.

Bank secrecy

230. Pursuant to the Credit Institutions Act, banks are obliged to protect the confidentiality of all information, facts and circumstances of which they become aware in the course of providing services to their clients. However, the Act contains explicit exception for provision of information to the tax authority, including for EOI purposes. In practice, bank secrecy has never been asserted to the Tax Administration for either domestic or EOI purposes and banks fully co-operate with the Tax Administration.

Professional secrecy

231. The 2016 Report concluded that the exception from the obligation to provide information to the Tax Administration in respect of lawyers, tax consultants and auditors is too broad and goes beyond the standard as it covers all information obtained by them acting in their professional capacity without appropriate exceptions, i.e. no limitation to the professional secrecy rules is provided in the General Tax Act, nor in any of the laws regulating certain professions (i.e. the Tax Advisory Act and the Law on Attorneys). The report covered an analysis of the legal framework only; this review now also covers its implementation in practice and more information was gathered on how the general principle is interpreted and applied in practice.

232. The General Tax Act states that information on the facts relevant to the taxation of a taxable person may be withheld by defined persons including lawyers, public notaries, tax consultants and auditors if the information was obtained by them "acting in that capacity" (article 84 of the General Tax Act). The professional is relieved of the obligation of secrecy to his/her client only in exceptional cases or through a court decision.

233. With regard to public notaries, the possibility not to disclose information to the Tax Administration is limited, as they are obliged to report facts that are relevant for taxation in accordance with special regulations, e.g. Commercial Register or Register of Foundations. Therefore, protection of information held by notaries appears to be in line with the standard as it excludes factual information relevant for taxation.

234. Lawyers tax consultants and auditors are not required to provide the requested information even if the information is not confidential and it is meant to be shared with third persons. The protection covers also factual information such as on the identity of a director or beneficial owner of a company or accounting records.

235. Auditors cannot act as admitted legal representatives according to Croatia's domestic law and therefore should not be covered by professional legal privilege, and should be allowed to claim professional secrecy only where disclosure of the requested information would cause their clients adverse consequences incompatible with exchange of information.

236. In practice, a representative of the Bar Association met during the onsite visit clarified that the attorney client privilege relates to all activities that are involved with direct representation of the client in civil or criminal matters. He also added that the secrecy rules would apply to personal information in case of proceedings, or to any document added during the court proceedings. However, if the business relationship between a lawyer and its client relates to commercial activities, such as the incorporation of a company, real estate activities, it falls in the scope of the AML legislation,

and professionals would provide such information to the AMLO and the Tax Administration if requested. In addition, the Tax Administration also highlighted that in practice they experienced no problem in collecting information from professions that can withhold information in the case of professional secrecy. They insisted that cooperation is conducted in good faith and the Tax Administration is able to collect all the data in practice.

237. There was no case in the period under review where the information requested could not be accessed because of the attorney client privilege, both for EOI and domestic purposes. Croatia successfully received information from the Notary Chamber in one case.

238. While in practice, it seems that professional secrecy has not restricted the access powers of the Tax Administration on the basis of the EOI requests received during the period, Croatia should ensure that the scope of professional secrecy is in line with the international standard.

B.2. Notification requirements, rights and safeguards

The rights and safeguards (e.g. notification, appeal rights) that apply to persons in the requested jurisdiction should be compatible with effective exchange of information.

239. Croatian law does not include any notification rights for the person concerned by a request for information. The appeal rights are the ones applicable to any domestic act, without any extra right specific to EOI, and are compatible with effective exchange of information. The 2016 Report determined that the legal and regulatory framework of Croatia in this regard was in place and it is still the case. The implementation of that framework complies with the standard.

240. The new table of recommendations, determination and rating is as follows:

Legal and Regulatory Framework
Determination: The element is in place
Practical Implementation of the standard
Rating: Compliant

B.2.1. Rights and safeguards should not unduly prevent or delay effective exchange of information

Notifications

241. The Croatian law does not require notification of the persons concerned prior to or after providing the requested information to the requesting jurisdiction, unless the person is the information holder from which the information is requested.

242. As described under section C.3.2 below, the notice to the information holder requesting information includes limited information, i.e. the identification of the person to whom the notice relates and a description of the requested information.

243. The Croatian law does not contain any provision to prohibit the information holder from tipping off the taxpayer who is the subject of the request, but according to the Croatian authorities, this is not done in practice, as was confirmed by the various representatives of the professions met during the onsite visit. Representatives of the banks confirmed that they have never notified a client of a request received from the Tax Administration concerning them. Croatia also indicated that if an EOI partner clearly asks for the taxpayer not to be notified, the tax administration would indicate in the request to the information holder that the taxpayer should not be informed of the request. Breach of this prohibition is enforceable.

Appeal rights

244. Obtaining and providing the requested information cannot be appealed unless a tax decision concerning the information holder's tax liability in Croatia is issued. Appeal to a court can be launched against a tax decision, based on information obtained via the use of information gathering powers but in the absence of such a decision, the use of information gathering powers cannot be appealed. The taxpayer requested to provide the information may however administratively object to the launch of the tax audit or adequacy of the obtained information within 20 days after receipt of the results of the tax audit. The appeal procedure has no direct impact on the EOIR process, and this has not happened in EOI practice. Croatia clarified that in case of appeal, an EOIR request letter would not be disclosed.

Part C: Exchanging information

245. Sections C.1 to C.5 evaluate the effectiveness of Croatia's network of EOI mechanisms – whether these EOI mechanisms provide for exchange of the right scope of information, cover all Croatia's relevant partners, whether there were adequate provisions to ensure the confidentiality of information received, whether Croatia's network of EOI mechanisms respects the rights and safeguards of taxpayers and whether Croatia can provide the information requested in a timely manner.

C.1. Exchange of information mechanisms

Exchange of information mechanisms should provide for effective exchange of information.

246. Croatia can exchange information for tax purposes based on double tax conventions (DTCs), the EU Directive on Administrative Cooperation (DAC) and the multilateral Convention on Mutual Administrative Assistance in Tax Matters (Multilateral Convention).

247. The 2016 Report concluded that Croatia's EOI instruments met the standard, but an ambiguity under Croatian domestic law might prevent the Croatian competent authority from obtaining information regardless of domestic tax interest with 12 out of its then 104 EOI partners. Since then, Croatia has amended the General Tax Act to clarify that the Tax Administration's access powers for EOI purposes can be used regardless of domestic tax interests in all cases pursuant to a valid EOI request according to international agreements.

248. Since 2016 Croatia signed five new DTCs (with Japan, Kazakhstan, Kosovo,[11] United Arab Emirates and Viet Nam) and five DTCs entered into force (with Luxembourg, Kazakhstan, Kosovo, United Arab Emirates and Viet Nam).

11. This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

249. With 66 bilateral treaties, a regional instrument and a multilateral instrument, Croatia has a wide network of EOI agreements, covering 137 jurisdictions, and continues to interpret its treaties in conformity with the standard.

250. The new table of recommendations, determination and rating is as follows:

Legal and Regulatory Framework
Determination: The element is in place
Practical Implementation of the standard
Rating: Compliant

Other forms of exchange of information

251. Croatia exchanges information on both a spontaneous and an automatic basis. In the years 2015, 2016 and 2017, Croatia received 212 and sent 1 152 information records in spontaneous exchanges. The range of information exchanged is wide and includes information about residence, employment, business transactions, banking information and tax rulings. Spontaneous exchanges took place with most of the EU Member States.

252. Croatia applies the Common Reporting Standard in matters of automatic exchange of financial account information and exchanged first financial information in September 2017 on the basis of the Multilateral Convention and Directive 2014/107/EU. Croatia exchanged information automatically on financial accounts with all EU Member States and with 16 non-EU jurisdictions. Croatia also exchanges data automatically on five categories of income and on country by country reports (CbC) through the EU Directive on Administrative Cooperation (2011/16/EU). CbC reports are also exchanged under the Multilateral Convention with non-EU jurisdictions.

C.1.1. Foreseeably relevant standard

253. Exchange of information mechanisms should allow for exchange of information on request where it is foreseeably relevant to the administration and enforcement of the domestic tax laws of the requesting jurisdiction. The 2016 Report found that all but one of Croatia's EOI instruments provide for exchange of information that is "foreseeably relevant", "necessary" or "relevant" to the administration and enforcement of the domestic laws of the contracting parties concerning taxes covered in the DTCs. The Commentary to Article 26 of the OECD Model Tax Convention recognises the terms "necessary" and "relevant" as allowing the same scope of information as does the term "foreseeably relevant".

254. Croatia continues to interpret and apply its DTCs consistently with the standard of foreseeable relevance. All of the new DTCs signed by Croatia

since the 2016 Report include the term "foreseeably relevant" in their EOI Article.

255. Croatia's DTC with Switzerland, signed in 1999, does not provide for EOI to assist in the administration or enforcement of the domestic tax laws of the EOI partner. In practice, Switzerland declined a request made by Croatia on the basis that the request was not relevant for the enforcement of the treaty but only for the enforcement of domestic tax laws. However, as Switzerland ratified the Multilateral Convention in 2017, all future requests for information between Croatia and Switzerland covering taxable periods following the entry into force can use the Multilateral Convention as the legal basis and so the EOI relationship is up to the standard.

Clarifications and foreseeable relevance in practice

256. Regarding the application of foreseeable relevance in practice, Croatian authorities did not refuse to answer any EOI requests on the basis of lack of foreseeable relevance and there were no cases where it requested clarification on belief that the request was overly broad or vague.

Group Requests

257. None of Croatia's EOI agreements contains language prohibiting group requests and the process for responding to group requests is the same as for any other request for information. Croatia does not require any specific information to be provided by the requesting jurisdiction in the case of a group request. The competent authority interprets foreseeable relevance with respect to group requests in a similar manner as with regular requests.

258. The Tax Administration was able to provide an example of a group request, which was received by Croatia during the review period, involving yachts registered in Croatia. The competent authority was able to be satisfied of the foreseeable relevance of the group request and was able to access the information and answer the request.

C.1.2. Provide for exchange of information in respect of all persons

259. EOI agreements should not restrict the scope of the exchange of information provisions to certain persons, for example those considered resident in one of the contracting parties. The 2016 Report found that eight[12] of Croatia's DTCs do not explicitly provide that the EOI provision is not restricted by Article 1 (Persons Covered). However, to the extent that

12. Finland, Israel, Kuwait, Malaysia, Norway, Sweden, Turkey and the United Kingdom.

domestic laws are applicable to residents and non-residents, information can be exchanged under these EOI agreements in respect of all persons, including non-residents as all these DTCs provide for EOI for carrying out the provisions of domestic laws of the contracting parties concerning taxes covered by these EOI agreements. Moreover, all of these jurisdictions are also signatories to the Multilateral Convention and/or covered by the EU Administrative Cooperation Directive, which provide for EOI in respect of all persons.

260. The additional agreements that Croatia has entered into since the 2016 Report similarly do not have such restrictions.

261. Peers have not raised any issues in practice. Croatia has received a request concerning a taxpayer who was not resident in Croatia, nor in the requesting jurisdiction, but who held real estate assets in Croatia. Croatia has accessed the information and has provided it to the EOI partner.

C.1.3. Obligation to exchange all types of information

262. Article 26 of the OECD Model Tax Convention requires the exchange of all types of information, including bank information, information held by a fiduciary or a nominee, or information concerning ownership interests. The EOI agreements of Croatia include Article 26(5) of the OECD Model Tax Convention, except for eight EOI relationships.[13] In these cases, the coverage of all types of information depends on the interpretation and domestic law of both parties. The Croatian law and interpretation conform to the standard, but the other eight partners might have domestic restrictions to access bank or other information for EOI purposes.

263. Peers have not raised any issues in practice. Croatia was able to access and send banking information to requesting jurisdictions during the current review period, including to Bosnia and Herzegovina, Montenegro and Serbia (and did not have any exchanges with the remaining five partners). Croatia contacted the remaining jurisdictions, inviting them to sign a multilateral agreement to meet the standard.

C.1.4. Absence of domestic tax interest

264. The 2016 Report noted that there was an ambiguity in Croatia's domestic law that may prevent the Croatian competent authority from accessing information for EOI purposes. It recommended Croatia to amend the pre-2005 wording of DTCs with 12 jurisdictions, which were not covered by the Multilateral Convention or the EU Directive.

13. These jurisdictions are Belarus, Bosnia and Herzegovina, Iran, Jordan, Montenegro, Oman, Serbia and Syria.

265. As an alternative, Croatia has amended article 79 paragraph 1 of the General Tax Act, which clarifies the Tax Administration's access powers for EOI purposes without any domestic tax interest (see also B.1.3 above).

266. The additional agreements that Croatia has entered into since the 2016 Report all include Article 26(4) of the OECD Model Tax Convention, which provides that a contracting state may not decline to supply information solely because it has no interest in obtaining the information for its own tax purposes.

267. Peers have not raised any issues in practice during the current review period, and Croatia successfully exchanged information on which it had no domestic tax interest, e.g. information regarding invoices a Croatian company has issued, or information on income not taxed in Croatia.

C.1.5. and C.1.6. Exchange information relating to both civil and criminal tax matters and Absence of dual criminality principles

268. Croatia's network of agreements provides for exchange in both civil and criminal matters and all of Croatia's EOI agreements require the exchange of information regardless of whether the conduct under investigation, if committed in Croatia, would constitute a crime. During the current review period, Croatia did not receive requests involving criminal matters but would have no limitation to provide this type of information. Peers have not raised any issues in practice.

C.1.7. Provide information in specific form requested

269. Croatia's EOI instruments allow for the provision of information in the specific form requested (including depositions of witnesses and production of authenticated copies of original documents) to the extent such form is known or permitted under Croatia's law and administrative practices. In practice, Croatia has never been asked to provide information in a specific form.

C.1.8. Signed agreements should be in force

270. The 2016 Report described the process following requests for the negotiation of international agreements (para. 209). It noted that out of Croatia's 64 EOI instruments all were in force except for the DTC with Luxembourg, which entered into force on 13 January 2016 and is applicable since 1 January 2017. Croatia also negotiated a DTC with Kosovo, which was signed on 6 March 2017 and entered into force on 4 December 2017. A DTC with United Arab Emirates was signed on 13 July 2017 and entered into force on 1 January 2019. DTCs with Japan, Kazakhstan, and Viet Nam have been signed but have not yet entered into force.

EOI bilateral mechanisms

			Total	Total bilateral instruments not complemented by the MAC
A	Total number of DTCs/TIEAS	(A=B+C)	66	9
B	Number of DTCs/TIEAs signed (but pending ratification), i.e. not in force	(B=D+E)	1	0
C	Number of DTCs/TIEAs signed and in force	(C=F+G)	65	9
D	Number of DTCs/TIEAs signed (but pending ratification) and to the Standard		1	0
E	Number of DTCs/TIEAs signed (but pending ratification) and not to the Standard		0	0
F	Number of DTCs/TIEAs in force and to the Standard		53	1 (Turkmenistan)
G	Number of DTCs/TIEAs in force and not to the Standard		12	8 (Belarus, Bosnia and Herzegovina, Iran, Jordan, Montenegro, Oman, Serbia and Syria)

C.1.9. Be given effect through domestic law

271. Croatia has in place the legal and regulatory framework to give effect to its EOI mechanisms (paras 213-214, 2016 Report).

C.2. Exchange of information mechanisms with all relevant partners

> The jurisdiction's network of information exchange mechanisms should cover all relevant partners.

272. The 2016 Report found that element C.2 was in place and that Croatia should continue to develop its exchange of information network with all relevant partners.

273. Croatia has an extensive EOI network covering 66 jurisdictions through bilateral instruments. The Multilateral Convention expands this EOI network by 71 jurisdictions. Croatia also applies EU legislation since it entered the EU in July 2013, including the EU Directive 2011/16/EU on Administrative Cooperation in the field of taxation. Since the 2016 Report, Croatia's network expanded with the signature of five DTCs (see C.1). Croatia's EOI network covers all of its significant partners including its main trading partners, all OECD members and all G20 countries.

274. Croatia explained that the initiative for starting negotiations for a DTC can come from an economic sector within Croatia making representations to the Croatian Government, another jurisdiction or the competent authority of Croatia.

275. Croatia has in place an ongoing programme for negotiation of EOI agreements in line with the standard. Croatia is currently negotiating protocols to DTCs and new DTCs.

276. Comments were sought from Global Forum members in the preparation of this report and no jurisdiction advised that Croatia refused to negotiate or sign an EOI instrument with it. As the standard ultimately requires that jurisdictions establish an EOI relationship up to the standard with all partners who are interested in entering into such relationship, Croatia is recommended to continue to conclude EOI agreements with any new relevant partner who would so require (see Annex 1).

277. The new table of recommendations, determination and rating is as follows:

Legal and Regulatory Framework
Determination: The element is in place
Practical Implementation of the standard
Rating: Compliant

C.3. Confidentiality

The jurisdiction's information exchange mechanisms should have adequate provisions to ensure the confidentiality of information received.

278. The 2016 Report concluded that the applicable treaty provisions and statutory rules that apply to officials with access to treaty information and the practice in Croatia regarding confidentiality were in accordance with the standard.

279. Since the 2016 Report, all new instruments contain all of the essential aspects of Article 26(2) of the OECD Model Tax Convention. Croatia ensures that its EOI confidentiality practices meet the high requirements of the standard.

280. The new table of recommendations, determination and rating is as follows:

Legal and Regulatory Framework
Determination: The element is in place
Practical Implementation of the standard
Rating: Compliant

C.3.1. Information received: disclosure, use and safeguards

281. All Croatia's EOI instruments have confidentiality provisions to ensure that the information exchanged will be disclosed only to persons authorised by the agreements. These provisions contain, although with slight wording differences, all of the essential aspects of Article 26(2) of the OECD Model Tax Convention.

282. The 2016 Terms of Reference clarified that although it remains the rule that information exchanged cannot be used for purposes other than tax purposes, an exception applies where the EOI agreements provide for the authority supplying the information to authorise its use for purposes other than tax purposes, in accordance with the amendment to Article 26 of the OECD Model Tax Convention introducing this element (which previously appeared in the commentary to this Article). Nevertheless, as the provisions in Croatia's EOI agreements override any contradicting domestic legislation, the Croatian authorities are required to keep confidential all information received as part of a request or as part of a response to a request regardless of any domestic provision (General Tax Act). If Article 26 allows disclosure for judicial proceedings or to use information for wider purpose, there are no special limitations beyond those stated in such article, according to the rules of reciprocity. In the period under review, Croatia reported that there were no requests where the requesting partner sought Croatia's consent to utilise the information for non-tax purposes and similarly Croatia did not request its partners to use information received for non-tax purposes.

283. Provisions on confidentiality and safeguarding data are also included in the General Tax Act, the Tax Administration Act, Civil Servants Act, Data Confidentiality Act and the General Data Protection Regulation (EU) 2016/679. Article 8 of the General Tax Law requires the Tax Administration to treat all information provided by taxpayers as confidential. The Data Confidentiality Act regulates the confidentiality levels and the procedure that civil servants must follow to access data classified as confidential. In accordance with Article 21 of the Civil Servants Act, a civil servant is obliged to maintain secrecy up until five years after the civil servant's departure. Additionally, the Code of professional ethics for employees of the Ministry of Finance and the Tax Administration states that all confidential information shall be kept confidential by these employees even after their employment in the service has ended. These provisions also apply for contractors. Administrative and criminal sanctions apply if information is disclosed in breach of confidentiality duty (Civil Servants Act). Exceptions to tax secrecy include EOI, disclosure of information to court and to law enforcement authorities etc. However, the provisions of the treaties prevail.

284. In practice, certain units of the Ministry of Finance, such as the Anti-Money Laundering Office, have access to the Tax Administration system,

but with specific limitations. The Tax Administration IT security service can monitor who accesses which information at any time. In case of a breach of the information security rules, internal controls can be launched. Over the peer review period, five cases pertaining to violations of information security rules were initiated (none of these breaches related to information pertaining to an international agreement or EOI request). In addition, all employees from the Tax Administration undergo confidentiality training, and apply the clean desk policy put in place by the Tax Administration.

285. The access to both physical and electronic EOI files is limited to the five persons working in the EOI team in the Central Tax Administration (with user specific access rights being contained within the Tax Administration's computer system). If the EOI officer is unable to obtain the requested information directly through the database, he/she makes a request to the relevant regional office. The request to the relevant regional office only includes pertinent information from the requesting jurisdiction's letter or CCN request, the secured IT network system put in place by the European Commission, and is always drafted by the EOI officer. The confidentiality requirements are indicated in the cover letter of the request sent to the regional office, which can be accompanied by supporting documents, when transmitting a request made by a partner, or information received following an EOI request made by Croatia to a partner. Croatia subsequently reported that the competent authority has enhanced its procedures to ensure the relevant treaty stamp/watermark is placed on both covering letter and all attached documents since 2019, and the EOI Manual is in the process of being updated accordingly.

C.3.2. Confidentiality of other information

286. The confidentiality provisions in Croatia's EOI instruments and domestic law do not draw a distinction between information received in response to requests and information forming part of the requests themselves. All other information, such as background documents, communications between the requesting and the requested authorities and within the tax authorities, are treated confidentially.

287. The Croatian law regulates the content of notices to information holders requesting to provide the information. They have to include the identification of the person to whom the notice relates and a description of the requested information (General Tax Act Article 79). The notice launching a tax audit has to include also a description of the legal and factual basis of the audit. According to the Croatian authorities, the legal and factual basis should be interpreted as the reference to provisions of the domestic Croatian law and to the international treaty under which the information is requested and should not include information contained in the EOI request or supporting documentation.

288. As described in the 2016 Report (para. 224), a taxpayer cannot inspect information which is labelled by the Tax Administration as confidential e.g. draft decisions, council minutes, voting of member of collegial bodies; or disclosure of which is against the interests of a party or a third person (General Administrative Procedure Act). The General Data Protection Regulation (EU) 2016/679 prescribes penalties for unauthorised disclosures of confidential information. In practice, in the handling of an EOI request, if a regional tax officer needs to contact the taxpayer, the letter indicates the legal basis, the information requested, the deadline within which the information has to be provided and the misdemeanour procedures in case the information holder fails to provide the requested information. The Tax Administration never discloses the original request nor underlying documentation. A case arose where a taxpayer asked to see the original request for information and the Croatian Tax Administration declined providing it. Similarly, in the case of outgoing requests, Croatia would not allow a taxpayer to see the response provided by its EOI partner to an EOI request.

C.4. Rights and safeguards of taxpayers and third parties

The information exchange mechanisms should respect the rights and safeguards of taxpayers and third parties.

289. The 2016 Report concluded that Croatia's EOI agreements did not define the term "professional secret" and the scope of this term under its domestic laws may have negative impact on effective exchange of information. Therefore, it recommended that Croatia should ensure that the scope of professional secrecy under its domestic laws is in line with the international standard.

290. The new table of recommendations, determination and rating is as follows:

Legal and Regulatory Framework		
Deficiencies identified in the implementation of the legal and regulatory framework	**Underlying Factor**	**Recommendations**
	Croatia's EOI agreements do not define the term "professional secret" and the scope of this term under its domestic laws may have negative impact on effective exchange of information.	Croatia should ensure that the scope of professional secrecy under its domestic laws is in line with the international standard.
Determination: The element is in place		
Practical Implementation of the standard		
Rating: Compliant		

C.4.1. Exceptions to provide information

291. All but one of Croatia's DTCs (with the Netherlands) contain provisions allowing the contracting parties not to provide information which would disclose any trade, business, industrial, commercial or professional secret or trade process, or information the disclosure of which would be contrary to public policy. Nevertheless, the Netherlands is also a party to the MAC and to the EU Directive. All new treaties signed by Croatia contain these exceptions to provide information as well. All of Croatia's EOI relationships allow practical exchange of information in line with the standard.

292. The 2016 Report noted that the term "professional secret" is not defined in the EOI agreements and therefore it derives its meaning from Croatia's domestic laws. As explained under B.1.5, the scope of the secrecy provisions contained in domestic law in respect of information obtained by lawyers, tax consultants and auditors is vague and might go beyond the international standard.

293. The Tax Administration and representatives of the professions met during the onsite visit clarified that secrecy provisions are interpreted strictly and had no impact in practice, and the Tax Administration could always obtain information from these professions during the period under review (for EOI and domestic purposes). However, the legal framework would give the possibility to the Croatian competent authority to decline a request for information on the grounds that the information is subject to professional secrecy as defined in Croatian domestic law. It is therefore recommended that Croatia ensure that the scope of professional secrecy under its domestic laws is in line with the international standard.

C.5. Requesting and providing information in an effective manner

The jurisdiction should request and provide information under its network of agreements in an effective manner.

294. In order for exchange of information to be effective, jurisdictions should request and provide information under their network of EOI mechanisms in an effective manner. In particular:

- *Responding to requests*: Jurisdictions should be able to respond to requests within 90 days of receipt by providing the information requested or provide an update on the status of the request.
- *Organisational processes and resources*: Jurisdictions should have appropriate organisational processes and resources in place to ensure quality of requests and quality and timeliness of responses.
- *Restrictive conditions*: EOI assistance should not be subject to unreasonable, disproportionate, or unduly restrictive conditions.

295. Since the 2016 Report assessed only the legal and regulatory framework of Croatia, it did not assess this element, which involves issues of practice.

296. The Croatian authorities have processes and working methods in place to ensure timeliness and quality of their responses. The organisation and procedures are complete and coherent and peers were generally very satisfied with the responses sent but status updates have not been sent systematically when replies were not provided in 90 days. Croatia recently put in place a new statistical system aiming at further improving timeliness and communication with partners.

297. In practice, Croatia received 149 requests during the period under review. Croatia generally receives approximately the same number of requests as it sends per year, and with the same EOI partners, which are their neighbours and main trading partners.

298. The new table of recommendations and rating is as follows:

Legal and Regulatory Framework		
This element involves issues of practice. Accordingly, no determination has been made.		
Practical Implementation of the standard		
Deficiencies identified in the implementation of EOIR in practice	**Underlying Factor**	**Recommendations**
	While Croatia answered EOI requests within 90 days in 74% of the cases, when it took longer, Croatia provided status updates or partial responses only in 13% of the cases.	Croatia is recommended to improve communication with partners and send status updates whenever the 90-day deadline cannot be met.
Rating: Compliant		

C.5.1. Timeliness of responses to requests for information

299. Over the period under review (1 January 2015-31 December 2017), Croatia received 149 requests for information and the number of requests received increased during the three years. The information requested related to (i) ownership information (27 cases), (ii) accounting information (48 cases), (iii) banking information (64 cases) and (iv) other type of information (79 cases). The entities for which information was requested is broken down to (i) companies (105 cases) and (ii) individuals (113 cases).[14]

14. Please note that some requests entailed more than one type of information and/or entity.

300. Croatia's most significant EOI partners for the period under review (by virtue of the number of exchanges with them) are Slovenia, Italy, Germany, Austria, Serbia, and Bosnia and Herzegovina. For these years, the statistics on response time are tabulated below.

Statistics on response time

		2015		2016		2017		Total	
		Num.	%	Num.	%	Num.	%	Num.	%
Total number of requests received	[A+B+C+D+E]	41	28	54	36	54	36	149	100
Full response: ≤ 90 days		31	76	42	78	36	67	109	73
≤ 180 days (cumulative)		40	98	50	93	50	93	140	94
≤ 1 year (cumulative)	[A]	41	100	54	100	53	98	148	99
> 1 year	[B]	0		0		0		0	
Declined for valid reasons		0		0		0		0	0
Outstanding cases after 90 days		10	24	12	22	17	31	39	26
Status update provided within 90 days (for outstanding cases with full information not provided within 90 days, responses provided > 90 days)		2	20	0	0	3	18	5	13
Requests withdrawn by requesting jurisdiction	[C]	0		0		0		0	
Failure to obtain and provide information requested	[D]	0		0		1	1.8	1	0.7
Requests still pending at date of review	[E]	0		0		0	0	0	0

Notes: a. Croatia counts each request with multiple taxpayers as one request, i.e. if a partner jurisdiction is requesting information about 4 persons in one request, Croatia counts that as 1 request. If Croatia received a further request for information that relates to a previous request, with the original request still active, Croatia will append the additional request to the original and continue to count it as the same request.

b. The time periods in this table are counted from the date of receipt of the request to the date on which the final and complete response was issued.

301. During the period under review, Croatia responded to requests from its EOI partners within 90 days in more than 70% of cases. Croatia explained that requests that are fully dealt with within 90 days typically relate to information already at the disposal of the competent authority (e.g. tax information such as residency status of a person, etc.). It is worth noting that Croatia's main EOI partners are also Member States of the European Union, and therefore Croatia applies the deadlines set up by the EU Directive on Administrative Cooperation 2011/16/EU. Article 7 of the Directive foresees that the requested authority should provide information as quickly as possible and no later than six months after the receipt of the request. When the authority is already in possession of the information, it should be transmitted within two months.

302. Croatia's officials engaged in the EOI have been highly successful in answering partners' requests in a timely manner during the period under review, thanks to efficient procedures in place, timeliness controls and reminders, together with a good level of awareness of the importance of EOI in local offices.

303. Requests that are not fully dealt with within 180 days typically relate to complex queries covering a variety of types of information, for which the Tax Administration cannot access directly the information through their databases, or where the accessibility of the information requires lengthier processes. For instance, when the request relates to the identification of heirs of a taxpayer and the inheritance court proceeding is ongoing, the Croatian authority informs the partner that the court has not yet taken the decision. The competent authority processes these EOI requests in an effective manner.

304. When Croatia can only collect partially the information requested, it sends a partial response and sends a final response when it can access the rest of the information requested. This practice is appreciated by Croatia's partners.

305. During the period under review, Croatia requested clarification in one case to a requesting jurisdiction, due to incomplete data on the taxpayers for whom the information was sought. In that particular case, the request for clarification did generate delay as the requesting authority provided details almost one year later. Croatia also failed to provide information in one case, which is described under section A.2.

Status updates and communication with partners

306. In the peer inputs provided, Croatia's EOI partners were generally satisfied of their EOI relationship and communication with Croatia. However, peers reported that status updates were rarely sent in the few cases where Croatia was not able to answer in 90 days. Croatia provides partial replies when some information is still missing, preventing it from providing a full answer, which can be considered as a status update (included on the statistics in status updates in the table above). However, even considering the partial responses, Croatia provided status updates only in 13% of the cases where the answer took longer than 90 days. Croatia is therefore recommended to improve communication with partners and send status updates whenever the 90-day deadline cannot be met. Croatia recently put in place a new statistical system aiming at further improving timeliness and communication with partners, which are applicable to requests received after the period under review.

307. Croatia also indicated that for EU partners, they send regularly acknowledgement of receipt through the CCN system, the secured IT network system put in place by the European Commission. Regarding EOI requests

received from non-EU partners, Croatia explained that following the recent reform of the Tax Administration and the merger of the two direct taxation teams in the Central Tax Administration which dealt with EOI matters (see section C.5.2), acknowledgements of receipt have been recently introduced for all EOI partners for it to be harmonised and more efficient.

C.5.2. Organisational processes and resources

Organisation of the competent authority

308. The Competent Authorities for EOI are authorised by the Tax Administration Act. This act defines that the preparation, conclusion and implementation of international treaties is within the scope of work of the Tax Administration-Central office (article 9, paragraph 15). Additionally, the Minister of Finance has issued an Ordinance on internal order of the Ministry of Finance by which article 15 defines that the Tax Administration is managed by the General Director, also performing duty as the Assistant to Minister of Finance, who at the same time is managing the Central Office and signing its acts. In application of those provisions, the General Director signs the requests for information.

309. The entire Tax Administration underwent a profound reform in 2017, which involved the departments dealing with exchange of information at the central, regional and local levels.

310. In Croatia, co-ordination of the exchange of information in respect of direct taxes under Croatia's EOI instruments, including AEOI, is centralised in the Double taxation avoidance (DTA) unit, which is a part of the Central office of the Tax Administration based in Zagreb. The unit is in charge of EOI under the EU Directive on Administrative Cooperation, Multilateral Convention, MCAAs and DTAs.

311. The DTA unit comprises five staff working, among other tasks, on exchange of information on request. An additional 20 persons are their main contact points in each regional tax office (with one substitute). Until mid-2017, two separate units were responsible for handling requests, one in charge of the requests made by EU Member States and one by non-EU jurisdictions, in addition to other tasks, such as the negotiation of bilateral agreements. Under the reorganisation of the Tax Administration, the whole working process of international exchange of information for direct taxation has been regrouped under one unit.

312. With the 2017 reform of the Tax Administration, the number of regional offices went from 6 to 22, and the number of local offices from 57 to 98. The new organisation is focused on the local offices, where taxes are collected, with special divisions at the central office in charge of following-up

and monitoring the work done by local offices. The reform applied a reduction of 20% of full-time posts.

313. It is important to note the professionalism and high work commitment of the civil servants working in the Tax Administration, who have allowed maintaining a very high quality and timeliness of answers despite the recent reform and its implications on the number of staff.

Resources and training

314. Croatia organises training activities at least once per year, and when there is a specific need, e.g. changes in the legislation or in working processes. Training sessions are usually framed within the larger scope of administrative co-operation, with the aim of raising awareness and introducing the changes that might influence the work of the tax officers. Exchange of information is also integrated in these trainings. Specialised auditors and financial investigators also attend these types of trainings. Approximately 30 persons were trained during the peer review period.

315. The EOI team staff is specifically trained on exchange of information. All the contact persons in regional offices were trained on technical issues, and on procedures, including deadlines and confidentiality requirements, to ensure the quality and timeliness of Croatia's answers to EOI requests.

Competent authority's handling of the request

316. The DTA Unit is responsible for handling the requests. It is responsible for the communication with the competent authorities of Croatia's EOI partners, the co-ordination and the quality checks of incoming and outgoing requests.

317. When the competent authority receives a request, the first step is to evaluate its validity by confirming that (i) it fulfils the conditions laid down in the applicable provisions of the EOI agreement (the legal basis), (ii) it has been signed by the competent authority and contains all the information necessary for its processing, (iii) the requested information is foreseeably relevant, (iv) sufficient information was provided to identify the taxpayer, and (v) enough information was provided to understand the request. In the process of determining whether the request is valid and complete, the competent authority considers whether there are grounds for refusing the request. If the competent authority concludes that the request is defective or incomplete, it informs the requesting jurisdiction as soon as possible of any deficiencies. Croatia also clarified that in determining the validity of the request and the foreseeable relevance, it checks whether reciprocity is provided by the requesting jurisdiction. In practice, the DTA Unit has never declined an EOI request.

318. If a request for information is considered valid and complete, either the competent authority has direct access to the information requested through Croatia's central databases, or it makes a request for information to the regional tax office in charge of the concerned taxpayer. The competent authority asks the regional office to send the information as soon as possible and at the latest within two months when information is already available, and within six months at the latest. During the onsite visit, the EOI team also indicated that if the EOI partners indicate that the request is urgent, they can give shorter deadlines to the competent regional office. They also highlighted that there is an equal treatment between national and domestic requests, and deadlines are the same and no priority is given to a domestic request. The competent authority monitors deadlines, and sends reminders if the answer is not provided within the set deadline. When receiving the information from the regional tax office, it controls its quality before sending it to the requesting jurisdiction, and goes back to the regional office in case of discrepancy between the information requested by the EOI partner and the answer provided by the regional office. While the cover letter is labelled, all documents are not stamped or watermarked (see section C.3).

319. With the aim to control the quality of the information gathered and exchanged, the competent authority has introduced a new tracking and statistical system in 2018, with access permitted only to the DTA unit of the Tax Administration. The platform contains a tracking sheet with all incoming and outgoing requests. The system also contains a separate table with the following information: reference number, date, country, competent regional office, deadline, type of information requested (banking, accounting, ownership and others). The table allows producing statistics on a yearly basis and checking status updates when necessary.

Croatia's experience in obtaining the requested information

320. In almost all cases, Croatia managed to obtain the requested information from their centralised databases or from a regional or local office, using access powers. Practical difficulties during the period under review were generally linked to specific complex cases where lengthier processes are involved. For example, Croatia explained that inheritance cases could imply delay in answering to a partner when the court already closed the case and needed to reopen it to provide a response to an EOI request, where the partner sought information regarding the identification of heirs of a taxpayer. However, this concerns only two cases. The majority of requests linked to inheritance were answered in a timely manner as the heirs could be directly contacted.

321. Peers mentioned only one case in which Croatia could not obtain the requested information. Croatia confirmed that there is no systematic delay or

recurrent difficult cases. A peer raised one case where a company went into bankruptcy proceedings and ceased to exist. The owner of the company took all bookkeeping records, and it was not possible to trace the former director.

Outgoing requests

322. Croatia sent 150 requests during the period under review. The initiative for submitting a request for information can come from a local tax office, which submits it to the regional office, which submits it to the central office. The central Tax Administration is competent for checking the request and translating it. If the request is incomplete, the DTA Unit asks for additional information before sending the request to the competent authority of the requested jurisdiction. The general means of transmission used is the CCN network for the EU countries, or registered postal mail for other partners.

323. Croatia has been requested to provide clarification in three cases. During the onsite visit, Croatia specified that it has been requested clarification on the foreseeable relevance of a request in one case concerning banking information related to judicial civil proceedings. While Croatia was willing to be co-operative with the ministries of Justice, it was not possible to receive the information due to the fact that it was not linked to tax purposes, and the request was declined. The other two cases concerned a clarification on the foreseeable relevance of a request and on the identification of the taxpayer.

324. Overall, the Croatian authorities consider that exchange of information is a highly valuable tool for Croatia. Both incoming and outgoing requests for information are a component of the National Risk Analysis and may trigger a deeper risk analysis of a certain taxpayer.

C.5.3. Unreasonable, disproportionate or unduly restrictive conditions for EOI

325. There are no factors or issues identified in Croatia that could unreasonably, disproportionately or unduly restrict effective EOI.

Annex 1: List of in-text recommendations

The Global Forum may identify issues that have not had and are unlikely in the current circumstances to have more than a negligible impact on EOIR in practice. Nevertheless, there may be a concern that the circumstances may change and the relevance of the issue may increase. In these cases, a recommendation may be made; however, such recommendations should not be placed in the same box as more substantive recommendations. Rather, these recommendations can be mentioned in the text of the report. A list of such recommendations is reproduced below for convenience.

- **Element A.1**: Information on all shareholders of foreign companies with a place of effective management in Croatia may not always be available in Croatia. Croatia should therefore address this limited gap. (see para. 69)
- **Element A.1:** In the same way as for foreign companies, information on all partners of foreign partnerships in Croatia may not always be available in Croatia. Croatia should therefore address this limited gap (see para. 128).
- **Element C.2**: Croatia is recommended to continue to conclude EOI agreements with any new relevant partner who would so require. (see para. 276)

Annex 2: List of Croatia's EOI mechanisms

1. Bilateral international agreements for the exchange of information

	EOI partner	Type of agreement	Signature	Entry into force
1	Albania	DTC	02-Dec-1994	05-Jun-1997
2	Armenia	DTC	22-May-2009	18-Feb-2010
3	Austria	DTC	21-Sep-2000	28-Jun-2001
4	Azerbaijan	DTC	12-Mar-2012	18-Mar-2013
5	Belarus	DTC	11-Jun-2003	04-Jun-2004
6	Belgium	DTC	31-Oct-2001	01-Apr-2004
7	Bosnia and Herzegovina	DTC	07-Jun-2004	22-Jun-2005
8	Bulgaria	DTC	15-Jul-1997	30-Jul-1998
9	Canada	DTC	09-Dec-1997	23-Nov-1999
10	Chile	DTC	24-Jun-2003	22-Dec-2004
11	China (People's Republic of)	DTC	09-Jan-1995	18-May-2005
12	Czech Republic	DTC	22-Jan-1999	28-Dec-1999
13	Denmark	DTC	14-Sep-2007	22-Feb-2009
14	Estonia	DTC	03-Apr-2002	12-Jul-2004
15	Finland	DTC	08-May-1986	18-Dec-1987
16	France	DTC	19-Jun-2003	01-Sep-2005
17	Georgia	DTC	18-Jan-2013	06-Dec-2013
18	Germany	DTC	06-Feb-2006	20-Dec-2006
19	Greece	DTC	18-Oct-1996	18-Dec-1998
20	Hungary	DTC	30-Aug-1996	08-May-1998
21	Iceland	DTC	07-Jul-2010	15-Dec-2011
22	India	DTC	12-Feb-2014	11-Feb-2015

	EOI partner	Type of agreement	Signature	Entry into force
23	Indonesia	DTC	15-Feb-2002	16-Mar-2012
24	Iran	DTC	25-Mar-2003	30-Oct-2008
25	Ireland	DTC	21-Jun-2002	30-Oct-2003
26	Israel	DTC	26-Sep-2006	01-Feb-2007
27	Italy	DTC	29-Oct-1999	15-Sep-2009
28	Japan	DTC	19-Oct-2018	
29	Jordan	DTC	20-Feb-2005	17-Feb-2006
30	Kazakhstan	DTC	05-Jun-2017	22-Feb-2019
31	Korea	DTC	13-Nov-2002	30-Jun-2006
32	Kosovo	DTC	06-Mar-2017	04-Dec-2017
33	Kuwait	DTC	29-May-2001	09-Jan-2003
34	Latvia	DTC	04-May-2000	27-Feb-2001
35	Lithuania	DTC	04-May-2000	27-Feb-2001
36	Luxembourg	DTC	20-Jun-2014	01-Jan-2017
37	Malaysia	DTC	18-Feb-2002	15-Jul-2004
38	Malta	DTC	21-Oct-1998	22-Aug-1999
39	Mauritius	DTC	06-Sep-2002	09-Aug-2003
40	Moldova	DTC	30-May-2005	10-May-2006
41	Montenegro	DTC	14-Dec-2001	22-Apr-2004
42	Morocco	DTC	26-Jun-2008	25-Oct-2012
43	Netherlands	DTC	23-May-2000	06-Apr-2001
44	Norway	DTC	18-Jan-1983	03-Jun-1996
45	North Macedonia	DTC	06-Jul-1994	11-Jan-1996
46	Oman	DTC	21-Dec-2009	16-Feb-2011
47	Poland	DTC	19-Oct-1994	11-Feb-1996
48	Portugal	DTC	04-Oct-2013	28-Feb-2015
49	Qatar	DTC	24-Jun-2008	06-Apr-2009
50	Romania	DTC	25-Jan-1996	28-Nov-1996
51	Russia	DTC	02-Oct-1995	19-Apr-1997
52	San Marino	DTC	18-Oct-2004	06-Oct-2005
53	Serbia	DTC	14-Dec-2001	22-Apr-2004
54	Slovak Republic	DTC	12-Feb-1996	14-Nov-1996
55	Slovenia	DTC	10-Jun-2005	10-Nov-2005

	EOI partner	Type of agreement	Signature	Entry into force
56	South Africa	DTC	18-Nov-1996	11-Nov-1997
57	Spain	DTC	19-May-2005	20-Apr-2006
58	Sweden	DTC	18-Jun-1980	16-Dec-1981
59	Switzerland	DTC	12-Mar-1999	20-Dec-1999
60	Syrian Arab Republic	DTC	18-Jul-2008	06-Feb-2009
61	Turkey	DTC	22-Sep-1997	18-May-2000
62	Turkmenistan	DTC	29-Apr-2014	06-Apr-2015
63	Ukraine	DTC	10-Sep-1996	01-Jun-1999
64	United Arab Emirates	DTC	13-Jul-2017	01-Jan-2019
65	United Kingdom	DTC New DTC	06-Nov-1981 15-Jan-2015	18-Sep-2009 19-Nov-2015
66	Viet Nam	DTC	27-Jul-2018	23-May-2019

2. Convention on Mutual Administrative Assistance in Tax Matters (as amended)

The Convention on Mutual Administrative Assistance in Tax Matters was developed jointly by the OECD and the Council of Europe in 1988 and amended in 2010 (the Multilateral Convention).[15] The Multilateral Convention is the most comprehensive multilateral instrument available for all forms of tax co-operation to tackle tax evasion and avoidance, a top priority for all jurisdictions.

The original 1988 Convention was amended to respond to the call of the G20 at its April 2009 London Summit to align it to the international standard on exchange of information on request and to open it to all countries, in particular to ensure that developing countries could benefit from the new more transparent environment. The Multilateral Convention was opened for signature on 1 June 2011.

The Multilateral Convention was signed by Croatia on 11 October 2013 and entered into force on 1 June 2014. Croatia can exchange information with all other Parties to the Multilateral Convention.

15. The amendments to the 1988 Convention were embodied into two separate instruments achieving the same purpose: the amended Convention (the Multilateral Convention) which integrates the amendments into a consolidated text, and the Protocol amending the 1988 Convention which sets out the amendments separately.

As of April 2019, the Multilateral Convention is in force in respect of the following jurisdictions: Albania, Andorra, Anguilla (extension by the United Kingdom), Antigua and Barbuda, Argentina, Aruba (extension by the Netherlands), Australia, Austria, Azerbaijan, Bahamas, Bahrain, Barbados, Belgium, Belize, Bermuda (extension by the United Kingdom), Brazil, British Virgin Islands (extension by the United Kingdom), Bulgaria, Cameroon, Canada, Cayman Islands (extension by the United Kingdom), Chile, China (People's Republic of), Colombia, Cook Islands, Costa Rica, Croatia, Curaçao (extension by the Netherlands), Cyprus,[16] Czech Republic, Denmark, Estonia, Faroe Islands (extension by Denmark), Finland, France, Georgia, Germany, Ghana, Gibraltar (extension by the United Kingdom), Greece, Greenland (extension by Denmark), Grenada, Guatemala, Guernsey (extension by the United Kingdom), Hong Kong (China) (extension by China), Hungary, Iceland, India, Indonesia, Ireland, Isle of Man (extension by the United Kingdom), Israel, Italy, Jamaica, Japan, Jersey (extension by the United Kingdom), Kazakhstan, Korea, Kuwait, Latvia, Lebanon, Liechtenstein, Lithuania, Luxembourg, Macau (China) (extension by China), Malaysia, Malta, Marshall Islands, Mauritius, Mexico, Moldova, Monaco, Montserrat (extension by the United Kingdom), Nauru, Netherlands, New Zealand, Nigeria, Niue, Norway, Pakistan, Panama, Peru, Poland, Portugal, Qatar, Romania, Russia, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, San Marino, Saudi Arabia, Senegal, Seychelles, Singapore, Sint Maarten (extension by the Netherlands), Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, Tunisia, Turkey, Turks and Caicos Islands (extension by the United Kingdom), Uganda, Ukraine, United Arab Emirates, United Kingdom, Uruguay and Vanuatu.

In addition, the Multilateral Convention was signed by the following jurisdictions, where it is not yet in force: Armenia, Brunei Darussalam (entry into force on 1 July 2019), Burkina Faso, Dominica (entry into force on 1 August 2019), Dominican Republic, Ecuador, El Salvador (entry into force on 1 June 2019), Gabon, Jamaica, Kenya, Liberia, Mauritania, Morocco (entry into force on 1 September 2019), North Macedonia, Paraguay,

16. Note by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

Note by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Philippines, Qatar, United States (the original 1988 Convention is in force since 1 April 1995, the amending Protocol was signed on 27 April 2010).

3. EU Directive on Administrative Cooperation in the field of taxation

Croatia can exchange information relevant for direct taxes upon request with EU member states under the EU Council Directive 2011/16/EU of 15 February 2011 on administrative co-operation in the field of taxation (as amended). The Directive came into force on 1 January 2013. All EU members were required to transpose it into their domestic legislation by 1 January 2013, i.e. Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, the Slovak Republic, Slovenia, Spain, Sweden and the United Kingdom.

Annex 3: Methodology for the review

The reviews are based on the 2016 Terms of Reference, conducted in accordance with the 2016 Methodology for peer reviews and non-member reviews, as approved by the Global Forum in October 2015 and the 2016-21 Schedule of Reviews.

This evaluation is based on the 2016 ToR, and has been prepared using the 2016 Methodology. The evaluation is based on information available to the assessment team including the exchange of information arrangements signed, laws and regulations in force or effective as at 26 April 2019, Croatia's EOIR practice in respect of EOI requests made and received during the three year period from 1 January 2015 to 31 December 2017, Croatia's responses to the EOIR questionnaire, information supplied by partner jurisdictions, as well as information provided by Croatia's authorities during the on-site visit that took place from 8-12 October 2018 in Zagreb.

List of laws, regulations and other materials received

Commercial laws

Accounting Act

Act on Introduction of EU Company

Companies Act

Law on Associations

Law on Foundations and Funds

Taxation laws

General Tax Act

Income Tax Act

Profit Tax Act

Administration Act

Act on Personal Identification Number Tax

Banking laws

Credit Institutions Act

Croatian National Bank Act

Anti-money laundering laws

Anti-Money Laundering and Terrorist Financing Law

Other

Civil Servants Act

Code of Professional Ethics for Officers in the Tax Administration of the Ministry of Finance

Constitution of the Republic of Croatia

Criminal Code

Law on Legal Profession

Law on the Right of Access to Information

Copies of tax treaties

Authorities interviewed during on-site visit

Tax Administration

Customs Administration

Commercial Courts

Ministry of Finance, Sector for financial and budget audit

Ministry of Justice

Ministry of Administration

Central Depositary and Clearing Company

Ministry of Finance, Anti-Money Laundering Office (FIU)

Ministry of Finance, Financial Inspectorate

Croatia National Bank

HANFA

Association of banks

Bar association

Chamber of tax advisors

Audit Chamber

Notaries Chamber

Association of accountants and financial employees

Current and previous reviews

This report is the second review of Croatia conducted by the Global Forum. Croatia previously underwent a review of its legal and regulatory framework (Phase 1) in 2015-16. The 2016 Report was published in March 2016.

The Phase 1 review was conducted according to the terms of reference approved by the Global Forum in 2010 and the Methodology used in the first round of reviews.

Summary of reviews

Review	Assessment team	Period under review	Legal Framework as of	Date of adoption by Global Forum
Round 1 Phase 1	Mr Richard Carter of Isle of Man; Ms Lela Mikiashvili of Georgia; and Ms Renata Fontana and Mr Radovan Zidek of the Global Forum Secretariat	n.a.	December 2015	March 2016
Round 2	Mr Nigel Garland of Guernsey; Ms May Bente Moe of Norway; and Ms Mathilde Sabouret of the Global Forum Secretariat	1 January 2015-31 December 2017	April 2019	July 2019

Annex 4: Croatia's response to the review report[17]

We were particularly pleased to participate in the first assessment of Croatian legal and regulatory framework for the exchange of information in practice and we would like to express our sincere thanks to the Global Forum Secretariat and the Assessment Team for the cooperation.

Croatia agrees with comprehensive Peer Review Report which reflects that the practical implementation of the legal and regulatory framework is in place and ensures the availability, access and exchange of all relevant information for tax purposes in accordance with the international standard of transparency and exchange of information on request.

We will continue our efforts to strengthen our national procedures and practices in the areas where recommendations were given and to support international developments in improving transparency and exchange of information.

17. This Annex presents the Jurisdiction's response to the review report and shall not be deemed to represent the Global Forum's views.

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GLOBAL FORUM ON TRANSPARENCY AND EXCHANGE OF INFORMATION FOR TAX PURPOSES

Peer Review Report on the Exchange of Information on Request CROATIA 2019 (Second Round)

The Global Forum on Transparency and Exchange of Information for Tax Purposes is a multilateral framework for tax transparency and information sharing, within which over 150 jurisdictions participate on an equal footing.

The Global Forum monitors and peer reviews the implementation of international standard of exchange of information on request (EOIR) and automatic exchange of information. The EOIR provides for international exchange on request of foreseeably relevant information for the administration or enforcement of the domestic tax laws of a requesting party. All Global Forum members have agreed to have their implementation of the EOIR standard be assessed by peer review. In addition, non-members that are relevant to the Global Forum's work are also subject to review. The legal and regulatory framework of each jurisdiction is assessed as is the implementation of the EOIR framework in practice. The final result is a rating for each of the essential elements and an overall rating.

The first round of reviews was conducted from 2010 to 2016. The Global Forum has agreed that all members and relevant non-members should be subject to a second round of review starting in 2016, to ensure continued compliance with and implementation of the EOIR standard. Whereas the first round of reviews was generally conducted as separate reviews for Phase 1 (review of the legal framework) and Phase 2 (review of EOIR in practice), the EOIR reviews commencing in 2016 combine both Phase 1 and Phase 2 aspects into one review. Final review reports are published and reviewed jurisdictions are expected to follow up on any recommendations made. The ultimate goal is to help jurisdictions to effectively implement the international standards of transparency and exchange of information for tax purposes.

This report contains the 2019 Peer Review Report on the Exchange of Information on Request of Croatia.

Consult this publication on line at ***https://doi.org/10.1787/ccacbca7-en***.

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