CEE Tax & Payroll Newsletter

June 2024

Get a better overview of the most important changes in tax, labour, and payroll legislation in the CEE region.

The CEE Tax & Payroll Newsletter aims to share Forvis Mazars' latest news on tax, labour, and payroll legislation in the Central and Eastern Europe region, with the scope of helping you to prepare for the changes that could lie ahead in the following countries: Austria, Croatia, Czech Republic, Hungary, Poland, Romania, Serbia, Slovakia, Slovenia, and Ukraine.

CEE Tax & Payroll Newsletter

Insights to guide you through today’s evolving regional tax, labour, and payroll landscape.

Forvis Mazars is a leading professional services network in the Central and Eastern European audit, tax, and advisory market. We have developed regional competence centres while working collaboratively on a single integrated platform. Our approach offers you the competitive advantage of accessing both a multinational footprint of exceptional professionals and insights into the tax and payroll marketplace.

Austria Croatia Czech Republic Hungary Poland
Romania Serbia Slovakia Slovenia Ukraine

Tax

Companies that operate across borders or have a presence in multiple jurisdictions know that complying with local tax laws, and meeting reporting requirements is a resource-intensive task. It demands local market expertise from trained professionals.

Our regional network is ideally suited to serve large multinationals and international-minded mid-sized companies that need on the ground expertise in multiple jurisdictions. We also have substantial expertise helping fast growing companies that need a tax efficient structure for their first international expansion.

HR & payroll

A complete set of skills, one point of contact within the CEE region. With a solid team of experienced HR and payroll specialists, we are able to successfully support clients throughout Central & Eastern Europe.

We are continuously developing our HR and payroll offering by investing in labour legislation trainings and further growing our people. This means our services are always consistent, provided by a highly trained and motivated team.

CEE Tax Guide 2024 highlights key taxation trends

by Dr. Dániel H. Nagy LL.M, Partner, Head of Tax and Legal Services, Forvis Mazars in Hungary

CEE Tax Guide 2024 highlights key taxation trends

This year's edition of the Forvis Mazars CEE Tax Guide aims to help businesses stay up to date on tax trends, as staying informed about tax regimes is crucial to navigating the ever-changing European tax landscape.

Our 2024 report offers guidance to investors exploring market opportunities in these regions by analysing trends in tax burdens, wages, and inflation. This year's issue also addresses the introduction of the global minimum tax, a pivotal change in international taxation.

Among the main measures, the minimum tax introduces a new standard for multinational taxation, digitalisation in tax systems is enhancing transparency and compliance globally. Also, significant disparities in tax rates and competitiveness indicators are observed across the CEE region.

Rising tax burdens and inflation challenges

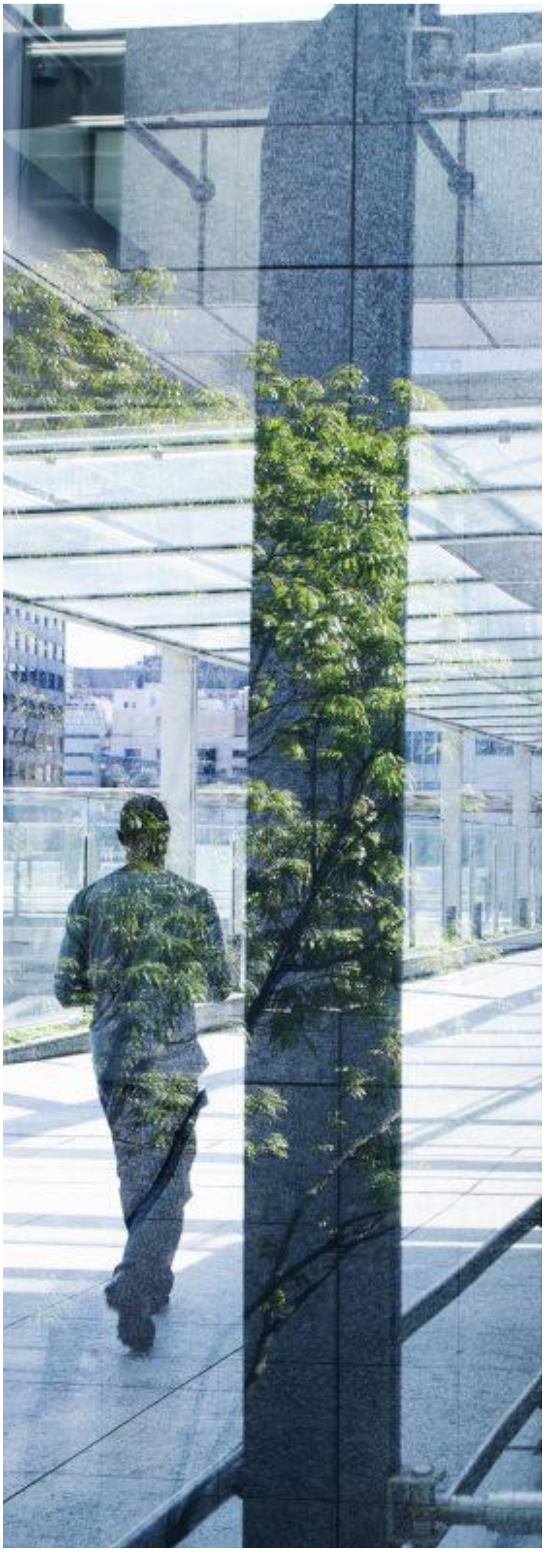
Payroll tax burdens across the region range from 14% to 49%, with an average of 38%, which is 2 percentage points higher than last year and 3 percentage points above the OECD average. Inflation has been a major challenge for the past years, impacting the economies of Central and Eastern Europe (CEE) and Central Asia. In the CEE region, both minimum and average wages have risen by roughly 10%, while inflation rates hovered around 9%.

Wage and inflation disparities between countries create differing economic outcomes. For instance, countries like Croatia, Slovenia, Bulgaria, and Poland experienced wage growth exceeding inflation, which sustained or improved living standards. However, nations like Hungary the Czech Republic, and Slovakia saw inflation-adjusted wages decline.

Introduction of the global minimum tax

The global minimum tax was implemented across various European nations, setting a new standard by requiring multinational groups with global annual revenues of at least €750 million to maintain an effective tax rate (ETR) of 15% per jurisdiction. This international framework, known as Pillar II and developed by the G20 and OECD, seeks to counter profit shifting and harmful tax competition.

CEE Tax Guide 2024 highlights key taxation trends



The global minimum tax signifies a seismic shift in international taxation, imposing robust compliance strategies for multinational corporations.

Across the region, the new standard is influencing strategic tax planning. Changes such as the introduction of refundable research and development (R&D) tax credits and other incentives are encouraging innovation while ensuring compliance. Businesses will need to carefully assess the impact of these changes on their effective tax rates and overall tax planning strategies.

Enhanced digitalisation in tax collection

To curb tax evasion and improve compliance, many regional authorities are leveraging digital tools for streamlined tax reporting and collection. Hungary's eVAT system simplifies VAT administration by providing taxpayers with pre-filled returns using electronic invoicing data. Poland and Romania have implemented the Standard Audit File for Tax (SAF-T) to standardise data exchange between businesses and tax authorities.

CEE Tax Guide 2024 highlights key taxation trends

Slovenia's real-time invoicing system directly connects cash registers to tax authorities, reducing VAT fraud. This pan-European push for digital transformation in tax collection underscores the commitment to leveraging technology for transparency and compliance.

Regional competitiveness indicators in the CEE Region

There are notable disparities in employment taxes across the CEE region. Countries like Bulgaria, Romania, Ukraine, and Hungary have flat personal income tax rates between 10% and 20%, while Austria, Germany, Slovenia, Croatia, and Slovakia favor progressive systems with the highest rates reaching up to 50%. Social security taxes and employer contributions also vary, averaging 16% of gross wages across the region. Lithuania, Kosovo, and Romania have the lowest employer contributions (5% or less), while Austria and Slovakia are among the highest (29% to 36%).

Minimum wages also show a broad spectrum. Kosovo and Moldova have minimum wages under €260, while most CEE nations, including the Czech Republic, Slovakia, Poland, and Romania, fall between €700 and €1,000. In Austria and Germany, the minimum exceeds €2,000.

Value-added tax (VAT) rates generally average around 20% across the EU, but Croatia and Hungary have high standard rates of 25% and 27%, respectively.

Corporate income tax rates range from 15% to 22%, except for Hungary, where the rate is 9%. EU measures like the Anti-Tax Avoidance Directive have changed interest limitation rules and offshore regulations. Several nations now impose withholding taxes on interest, dividends, and royalty income. IFRS-based financial statements and R&D tax incentives are common, while consolidated corporate taxation is available in several jurisdictions. The CEE region has significant disparities in tax policies, creating both opportunities and challenges for companies operating across borders. Understanding the regional tax landscape is crucial for businesses to navigate effectively.

Dr. Dániel H. Nagy
Partner, Head of Tax and Legal Services,
Forvis Mazars in Hungary

Wages, pensions, and employee benefits in the CEE region. A look into Croatia, the Czech Republic, and Romania

by our joint regional team of payroll experts in Central & Eastern Europe

Wages, pensions, and employee benefits in the CEE region. A look into Croatia, the Czech Republic, and Romania

Simplifying employee compensation and reducing the burden on salaries is a key concern for many countries in Central and Eastern Europe (CEE). This article explores recent tax reforms in Croatia, analysing how they have lowered the overall tax burden for employees. We will also take a brief look at similar developments in the Czech Republic and Romania, providing a comparative perspective on employee benefits strategies in the CEE region.

Croatia has undergone several rounds of tax reform over the last 10 years or so, where each round included attempts to reduce the overall burden on salaries.
Apart from gradually reducing the tax and social security rates over the years, Croatia has also introduced some other ways to reduce the burden on salaries.
For example, many non-taxable compensation items have been introduced over the years, such as meal allowance, kindergarten allowance, voluntary pension contributions, non-taxable bonuses, occasional awards, etc. Such non-taxable allowances can constitute 30% of the average Croatian net salary.
Furthermore, employees up to 25 years of age receive a full tax refund at year-end, while employees between 25 and 30 years of age receive a refund amounting to 50% of the personal income tax withheld from their salaries during the year. The entire process is automated by the Croatian tax authorities, so eligible taxpayers just need to sit and wait for their refund, which is usually paid out in May of the following year.

Additionally, employers are relieved from paying their share of social security contributions for a period of 5 years when employing individuals under 30 years of age.

In 2024, the nominal tax and social security rates affecting salaries in Croatia are as follows:

- 16,5% relates to the employer's part of social security contributions (health care contributions), applied on gross salary, uncapped;
- 20% relates to the employee's part of social security contributions (pension contributions), applied on gross salary, partially capped;
- 15% to 23,6% relates to the first tax bracket, applied on gross salary reduced by

- employee's part of contributions and personal allowance. The first €4,200 of such taxable base is taxed in the first tax bracket;
- 25% to 35,4% relates to the second tax bracket, applied on the remaining tax base.

The exact tax rate varies across municipalities. As of 2024, the local municipalities have been allowed to change the tax rates within the prescribed ranges on an annual basis. This brings some uncertainties in the overall planning of employee costs, but it also allows the local municipalities the possibility to quickly adjust the tax rates in line with their overall budget needs.

Significant personal allowances are used when computing personal income tax liability on salaries. In 2024 the basic personal allowance was increased from €530 to 560, with further increase announced for 2025. Resident taxpayers can further increase their personal allowance if they have supported family members.

Although the nominal tax rates may seem relatively high, most Croatian employees do not pay any personal income tax due to their allowances. This means that most Croatian employees pay only pension contributions out of their gross salaries.

For such reasons, in 2024 the Croatian government decided to reduce the employee's part of contributions (pension contributions) for all gross salaries up to €1,300. The government introduced a formula by which such a reduction is applied, however, this can be quite complex to implement in cases where an individual works for two or more employers.
When compared to other EU member states, Croatia's overall burden on salaries is usually in the middle or at the lower end of the range, depending on specific circumstances. The statistics would be even more in favor of Croatia if non-taxable compensation items (mentioned above as quite significant) were taken into consideration.

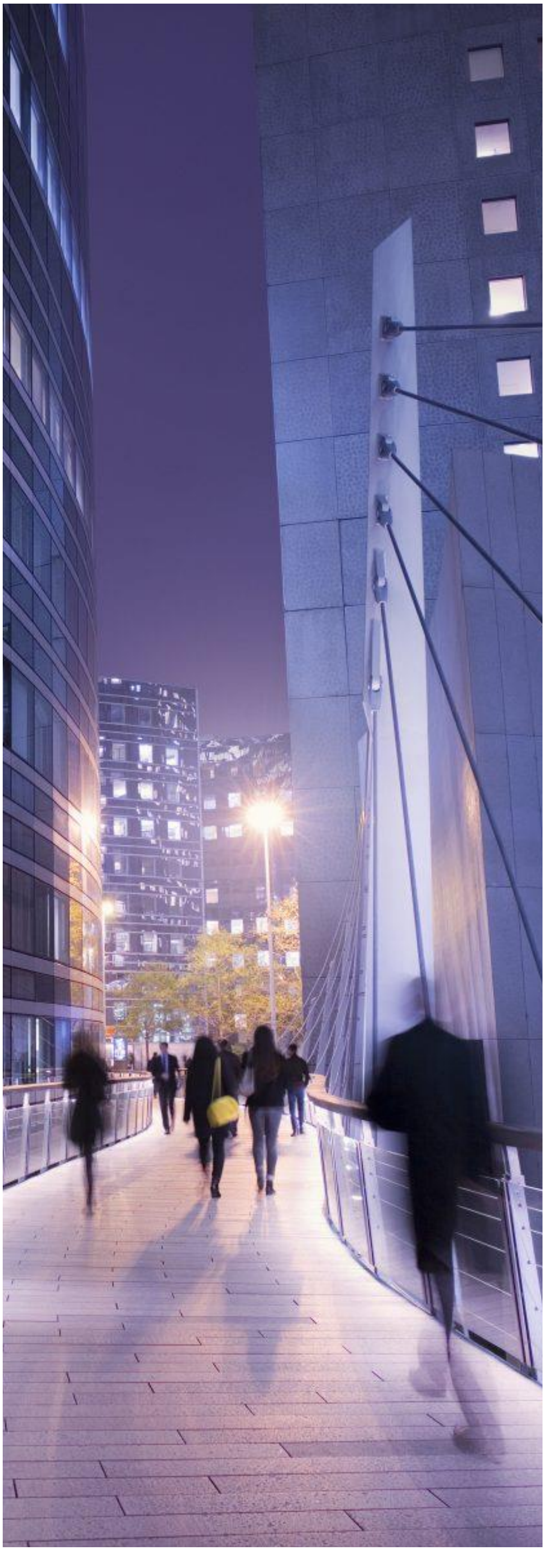
Going forward we trust that the Croatian government will continue to seek small and gradual reductions in the overall burden on salaries, while major adjustments are not expected anytime soon.
We certainly welcome any announcements of tax relief.

Wages, pensions, and employee benefits in the CEE region. A look into Croatia, the Czech Republic, and Romania

Reducing contributions for pension insurance for the lowest salaries seems like a good solution because it's the only way to increase smaller net salaries by intervening in tax regulations.

In the Czech Republic there are changes brought about by Act No. 462/2023 Coll., amending certain acts in connection with the development of the financial market and the promotion of old-age security.

Regarding voluntary pension contributions (a very popular benefit for employees and employers), in the Czech Republic there are two new options of Retirement savings products/Pension contributions for employees to choose from: **Long-term investment product (LIP) and Long-term care insurance(LCI)**.
Long-term investment product through which the taxpayer can purchase e.g. shares, bonds, shares in an investment fund, or hedging derivatives, meaning the possibility to invest in products that can offer potentially higher appreciation, albeit at a higher risk. Each person can choose their own investment strategy, which they can change at their discretion. This opens up the



possibility for taxpayers to participate more actively in their investments than in the current PFs. Long-term investment product can only be provided by government-regulated financial institutions. Long-term care insurance i.e. insurance whose insured event is the dependence of the policyholder or their relative on the assistance of another natural person to manage the basic needs of life due to their long-term adverse health condition, taken out with an insurance company authorised to carry on insurance business in the territory of a Member State of the E.U. or a State forming the European Economic Area.

The main change in the tax support is that for all savings products, if they are new contracts, no withdrawals may be made before 120 calendar months have elapsed since their inception or before the taxpayer reaches age 60; i.e. the "120 months/60 years" condition. The '2 x 60' condition for old contracts continues to apply.

To deduct the taxpayer's contributions in the annual statement or tax return, Sections 15(5) and (6) of the Income Tax Act combine the two limits (€962 for the deduction of contributions to a supplementary pension scheme with the state's contribution limit) from 2024. €962 (for the deduction of contributions to the State Pension Fund, supplementary pension savings, supplementary pension insurance in the EU/EEA and €962 for the deduction of contributions to the State Pension Fund), into one limit of €1,924, i.e. in total for all old-age savings products including the new LIP + and LCI (although it has a different character).

For the exemption of employer contributions, there is still one aggregate annual limit of €2,002, including the new LIP and LCI (6(9)(m) of the Income Tax Act). However, in the event of a breach of the conditions, the taxpayer will now add as income under Section 6, with the exception of the PDP, not only contributions made by the employer for private life insurance but also for supplementary pension insurance with state contribution, supplementary pension savings, and long-term investment products.

In Romania can be observed a few key Changes in the minimum gross wage and tax-free threshold.

Increase of the value of minimum gross wage

Starting from 1 July 2024, according to Government Decision No. 598/2024, the minimum gross wage per country guaranteed in payment is set in money, not including allowances, bonuses, and other additions, in the amount of €743* per month, for a normal working schedule of an average of 168 hours per month, representing €4,42* per hour.

This new value is applicable for all sectors except the construction and food industry, for which the values of the minimum gross wages are still set at €920*, and €690* respectively.

It should also be considered that employees whose gross salary has been set at the minimum gross wage in the country for a maximum period of 24 months from the conclusion of the individual employment contract can no longer be employed at the level of the minimum gross wage in the country.

Increase of the non-taxable amount from the minimum gross wage

According to the Emergency Ordinance No. 59/2024, amending and supplementing Law no. 227/2015 on the Fiscal Code, as well as other fiscal measures, starting with July 2024 salary-related income, the amount of €40* per month representing the salary-related income for which the personal income tax is not due and which is not included in the monthly basis for calculating mandatory social contributions, is increased to the level of €60* per month.

The conditions for granting this fiscal facility remain the same, namely:

- the level of the gross monthly basic salary established in accordance with the individual employment contract, excluding bonuses and other allowances, shall be equal to the level of the minimum gross wage established by Government decision, in force in the month to which the income is related to

- the gross salary income, as defined by the Fiscal Code (e.g.: realised salary, vacation allowance, medical leave allowance, meal vouchers value, etc.), under the same individual employment contract for the same month does not exceed €803* per month, inclusive.

*the amounts in EUR (€) are approximate and influenced by the LEI-EUR exchange rate.

News from the CEE countries

Austria, Croatia, Czech Republic, Hungary, Poland, Romania, Serbia, Slovakia, Slovenia, Ukraine

News from the CEE countries

2000+	50+	20+	20+
professionals	partners	offices	countries

The overview of the most important tax and payroll insights from Central and Eastern Europe will help you navigate more efficiently through the changes that occur in the following countries: Austria, Croatia, Czech Republic, Hungary, Poland, Romania, Serbia, Slovakia, Slovenia, and Ukraine.

Learn about all the updates below.

Austria

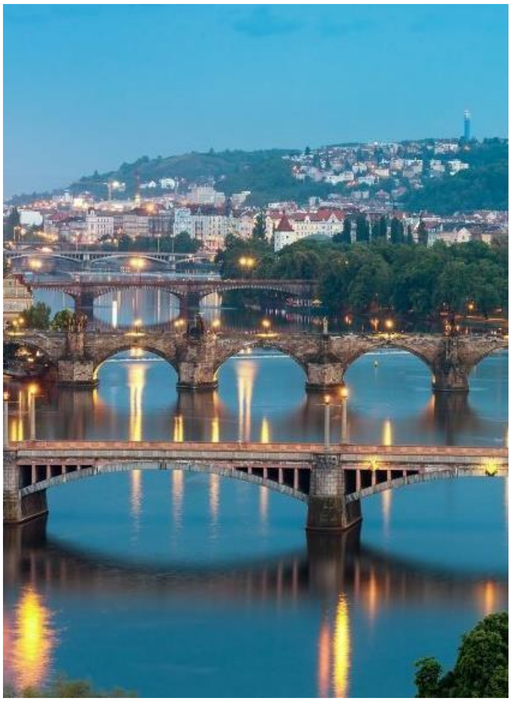
- Reduction of the corporate tax rate. Read more.
- New construction and living package. Read more.
- Employee bonus newly introduced in 2024. Read more.
- Innovations in service notes. Read more.

News from the CEE countries

Croatia

- Amendment to the VAT Act.
- Amendment to the Forest Act.
- Persons liable to pay tax on holiday homes.
- Income tax refund based on the annual income tax calculation for 2023.
- Corporate Income Tax return for 2023.
- Double Taxation Treaty negotiations with Australia and Saudi Arabia.

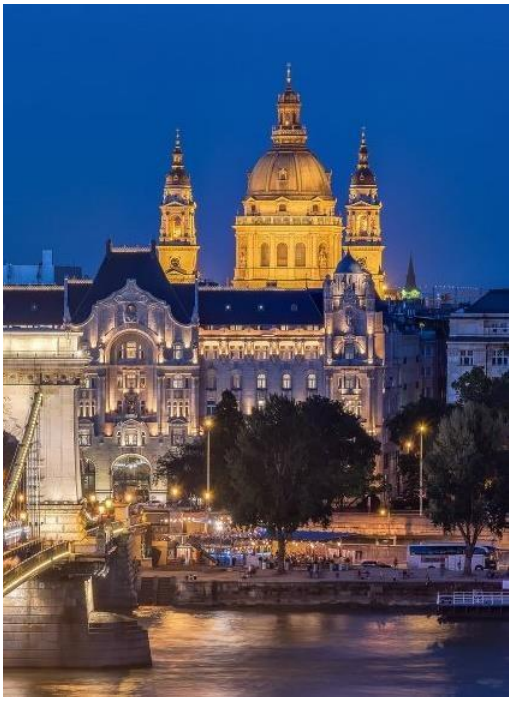
Read more about all the updates.



Czech Republic

- Transfer pricing audits. Read more.
- Changes in the arm's length principle. Read more.
- Application of VAT in Barter Transactions. Read more.
- Amendment to the Consolidation Package. Read more.
- Changes to employment of foreigners in the Czech Republic. Read more.
- Madison: A full-fledged employee self-service portal. Read more.

News from the CEE countries



Hungary

- CyberCert Act registration deadline approaching. Read more.
- National Tax and Customs Administration's next focus on companies and organisations. Read more.

Poland

- New obligations for international and domestic groups - the global minimum tax. Read more.
- KSeF to become mandatory from 2026. Read more.
- Deadlines for transferring the allowance to the Social Fund (ZFŚS).
- Further changes to the Labour Code in 2024.

Read more about all the updates.

News from the CEE countries

Romania

- Changes in the field of excise duties and social contributions. Read more.
- VAT and excise duty changes. Read more.
- Main changes regarding the minimum gross wage. Read more.

Serbia

- Amendments to the Rulebook on the interest rates, considered to be in compliance with the arm's length principle for FY 2024.

  Read more.

News from the CEE countries

Slovakia

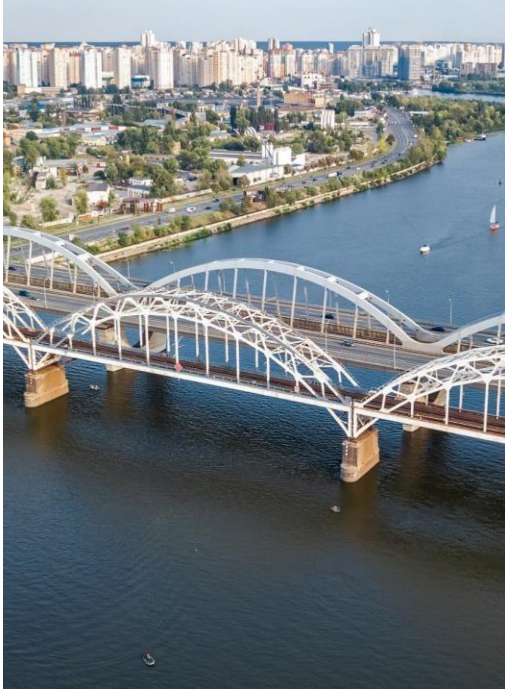
- Amendment to the Value Added Tax Act. Read more.

Slovenia

- Tax Authority (FURS) clarification about simplification for triangular transactions.
- Case law – Reclaiming incorrectly accounted VAT in the UK.
- Digitalisation of ATA Carnet.
- Proposed Act amending Employment, Self-employment and Work of Foreigners Act.

Read more about all the updates.

News from the CEE countries



Ukraine

- News digest for Diia City tax regime residents. Read more.
- Military service, mobilisation, and military registration law to come into force. Read more.
- Recent tax and legal news. Read more.
- The recent issue of Reconstruction of Ukraine newsletter. Read more.

Contacts

Austria

Florian Würth

Partner, Tax

florian.wuerth@mazars.at

Monika Raidl

Partner, Head of HR & Payroll

monika.raidl@mazars.at

Croatia & Serbia

Pere Mioč

Partner, Tax

pere.mioc@mazars.hr

Vladimir Nol

Director, Payroll & Global Mobility

vladimir.nol@mazars.hr

Czech Republic

Pavel Klein

Partner, Head of Tax

pavel.klein@mazars.cz

Jana Boštíková

Partner, Head of HR & Payroll

jana.bostikova@mazars.cz

Hungary

Dániel H. Nagy

Partner, Head of Tax

daniel.h.nagy@mazars.hu

Dávid Szegő

Director, Head of Outsourcing

david.szego@mazars.hu

Poland

Kinga Baran

Partner, Head of Tax

k.baran@mazars.pl

Aneta Jurkiewicz

Partner, HR & Payroll

aneta.jurkiewicz@mazars.pl

Romania

Edwin Warmerdam

Partner, Head of Tax

edwin.warmerdam@mazars.ro

Cătălina Călinescu

Partner, Outsourcing-HR & Payroll

catalina.calinescu@mazars.ro

Slovakia

Kvetoslava Čavajdová

Partner, Tax

kvetoslava.cavajdova@mazars.sk

Jarmila Rovanová

Partner, Outsourcing

jarmila.rovanova@mazars.sk

Slovenia

Teja Paulin

Partner, Tax

teja.paulin@mazars.si

Ukraine

Denys Shendryk

Director, Head of Tax

denys.shendryk@mazars.ua

Tatiana Feschuk

Head of HR & Payroll

tatiana.feschuk@mazars.ua