

**SONJA CINDORI**

Faculty of law, Croatia

## **VALUE ADDED TAX AND ITS PLACE IN THE FISCAL SYSTEM OF THE REPUBLIC OF CROATIA DURING THE FINANCIAL CRISIS**

**Abstract:**

Value added tax was introduced in the fiscal system of the Republic of Croatia in 1998 as a flat rate system with a rate of 22 %. Shortly thereafter zero rate and reduced rate of 10% were introduced. Tax rates and their scope have been changing periodically until nowadays when rates are 5%, 13 % and 25% by which the Republic of Croatia takes a leading position regarding the amount of standard rate applicable in the Member States of the European Union.

At the beginning of 2015 value added tax legislation is going to be harmonized with the EU legislation completely and will create a basis for a stable and plentiful form of sales taxation, with respect to the fact that Value added tax is the most plentiful taxation revenue of Government Budget of the Republic of Croatia.

Latest reforms of the Value Added tax system in the Republic of Croatia concern changes in several areas: tax rate levels, threshold for compulsory registration in the Value added tax system, tax exemptions (by selecting functional principles for certain categories of exemptions), modalities of Value Added tax computation (according to collected or issued invoices) and new control methods of cash turnover.

The greatest effect was expected in the area of its buoyancy and resilience during the financial crisis whether there was attempt to indirectly influence its regressive nature.

Regardless of changes in the taxation system by the Value added tax, developments in economy and changes in social and economic sphere, Value added tax revenue in the last ten years has been in relatively narrow limits. However, its buoyancy, cheapness of collection and resilience during the financial crisis as advantages of this form of taxation cannot be considered separately but must be placed in the context of current economic conditions.

According to the recent efforts of raising the standard rate of Value added tax there is a question of reaching the limits of Croatian tax capacity and real possibilities of setting its goals. Therefore, cheapness and efficiency of tax collection, the stability of tax policy and the balance between scope of tax base and provided exemptions should be an imperative of fiscal policy of the Republic of Croatia, which has to aim at the effectiveness of the implementation of legislation in relation to the tax system as a whole.

**Keywords:**

financial crisis, tax policy, value added tax, regression, rate, exemptions.

**JEL Classification:** K34