

**2015 No. 1889**

**CAPITAL GAINS TAX**

**CORPORATION TAX**

**INCOME TAX**

**The Double Taxation Relief and International Tax Enforcement  
(Croatia) Order 2015**

*Made* - - - - *11th November 2015*

At the Court at Buckingham Palace, the 11th day of November 2015

Present,

The Queen's Most Excellent Majesty in Council

A draft of this Order was laid before the House of Commons in accordance with section 5(2) of the Taxation (International and Other Provisions) Act 2010<sup>(a)</sup> and section 173(7) of the Finance Act 2006<sup>(b)</sup> and approved by a resolution of that House.

Accordingly, Her Majesty, in exercising the powers conferred upon Her by section 2 of the Taxation (International and Other Provisions) Act 2010 and section 173(1) to (3) of the Finance Act 2006, by and with the advice of Her Privy Council, orders as follows—

**Citation**

**1.** This Order may be cited as the Double Taxation Relief and International Tax Enforcement (Croatia) Order 2015.

**Double taxation and international tax enforcement arrangements to have effect**

**2.** It is declared that—

- (a) the arrangements specified in the Agreement and Protocol set out in the Schedule to this Order have been made with the Government of the Republic of Croatia;
- (b) the arrangements have been made with a view to affording relief from double taxation in relation to capital gains tax, corporation tax and income tax and taxes of a similar character imposed by the laws of the Republic of Croatia and for the purposes of assisting international tax enforcement; and

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(a) 2010 c. 8.  
(b) 2006 c. 25.

(c) it is expedient that those arrangements should have effect.

*Richard Tilbrook*  
Clerk of the Privy Council

## SCHEDULE

Article 2

### **AGREEMENT BETWEEN THE REPUBLIC OF CROATIA AND THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL EVASION WITH RESPECT TO TAXES ON INCOME AND ON CAPITAL GAINS**

The Republic of Croatia and the United Kingdom of Great Britain and Northern Ireland;

Desiring to conclude an Agreement for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and on capital gains;

Have agreed as follows:

#### **ARTICLE 1**

##### **Persons covered**

This Agreement shall apply to persons who are residents of one or both of the Contracting States.

#### **ARTICLE 2**

##### **Taxes covered**

(1) This Agreement shall apply to taxes on income and on capital gains imposed on behalf of a Contracting State or of its political subdivisions or local authorities, irrespective of the manner in which they are levied.

(2) There shall be regarded as taxes on income and on capital gains all taxes imposed on total income, or on elements of income, including taxes on gains from the alienation of movable or immovable property.

(3) The existing taxes to which this Agreement shall apply are in particular:

(a) in the case of the United Kingdom:

- (i) the income tax;
- (ii) the corporation tax; and
- (iii) the capital gains tax;

(hereinafter referred to as "United Kingdom tax");

(b) in the case of the Republic of Croatia:

- (i) the profit tax;
  - (ii) the income tax; and
  - (iii) the local income tax and any other surcharge levied on one of these taxes;
- (hereinafter referred to as "Croatian tax").

(4) This Agreement shall also apply to any identical or substantially similar taxes that are imposed after the date of signature of this Agreement in addition to, or in place of, the existing taxes. The competent authorities of the Contracting States shall notify each other of any significant changes that have been made in their taxation laws.

### **ARTICLE 3**

#### **General definitions**

- (1) For the purposes of this Agreement, unless the context otherwise requires:
  - (a) the term "United Kingdom" means Great Britain and Northern Ireland, including any area outside the territorial sea of the United Kingdom which in accordance with international law has been or may hereafter be designated, under the laws of the United Kingdom concerning the Continental Shelf, as an area within which the rights of the United Kingdom with respect to the sea bed and sub-soil and their natural resources may be exercised;
  - (b) the term "Croatia" means the territory of the Republic of Croatia as well as those maritime areas adjacent to the outer limit of territorial sea, including sea bed and sub-soil thereof, over which the Republic of Croatia in accordance with international law and the laws of the Republic of Croatia exercises its sovereign rights and jurisdiction;
  - (c) the terms "a Contracting State" and "the other Contracting State" mean the United Kingdom or Croatia, as the context requires;
  - (d) the term "person" includes an individual, a company and any other body of persons;
  - (e) the term "company" means any body corporate or any entity that is treated as a body corporate for tax purposes;
  - (f) the term "enterprise" applies to the carrying on of any business;
  - (g) the terms "enterprise of a Contracting State" and "enterprise of the other Contracting State" mean respectively an enterprise carried on by a resident of a Contracting State and an enterprise carried on by a resident of the other Contracting State;
  - (h) the term "international traffic" means any transport by a ship or aircraft operated by an enterprise of a Contracting State, except when the ship or aircraft is operated solely between places in the other Contracting State;
  - (i) the term "competent authority" means:
    - (i) in the case of the United Kingdom, the Commissioners for Her Majesty's Revenue and Customs or their authorised representative;
    - (ii) in the case of Croatia, the Minister of Finance or his authorised representative;

- (j) the term "national" means:
- (i) in relation to the United Kingdom, any British citizen, or any British subject not possessing the citizenship of any other Commonwealth country or territory, provided he has the right of abode in the United Kingdom; and any legal person, partnership, association or other entity deriving its status as such from the laws in force in the United Kingdom;
  - (ii) in relation to Croatia, any individual possessing the nationality of Croatia and any legal person, partnership or association deriving its status as such from the laws in force in Croatia;
- (k) the term "business" includes the performance of professional services and of other activities of an independent character;
- (l) the term "pension scheme" means any scheme or other arrangement established in a Contracting State which:
- (i) is generally exempt from income taxation in that State; and
  - (ii) operates principally to administer or provide pension or retirement benefits or to earn income for the benefit of one or more such arrangements.

(2) As regards the application of this Agreement at any time by a Contracting State, any term not defined therein shall, unless the context otherwise requires, have the meaning that it has at that time under the laws of that State for the purposes of the taxes to which this Agreement applies, any meaning under the applicable tax laws of that State prevailing over a meaning given to the term under other laws of that State.

## **ARTICLE 4**

### **Residence**

(1) For the purposes of this Agreement, the term "resident of a Contracting State" means any person who, under the laws of that State, is liable to tax therein by reason of his domicile, residence, place of management, place of incorporation or any other criterion of a similar nature, and also includes that State and any political subdivision or local authority thereof. This term, however, does not include any person who is liable to tax in that State in respect only of income or capital gains from sources in that State.

(2) Where by reason of the provisions of paragraph (1) an individual is a resident of both Contracting States, then his status shall be determined in accordance with the following rules:

(a) he shall be deemed to be a resident only of the Contracting State in which he has a permanent home available to him; if he has a permanent home available to him in both States, he shall be deemed to be a resident only of the State with which his personal and economic relations are closer (centre of vital interests);

(b) if the Contracting State in which he has his centre of vital interests cannot be determined, or if he does not have a permanent home available to him in either State, he shall be deemed to be a resident only of the State in which he has an habitual abode;

(c) if he has an habitual abode in both Contracting States or in neither of them, he shall be deemed to be a resident only of the State of which he is a national;

(d) if he is a national of both Contracting States or of neither of them, the competent authorities of the Contracting States shall settle the question by mutual agreement.

(3) Where by reason of the provisions of paragraph (1) a person other than an individual is a resident of both Contracting States, then it shall be deemed to be a resident only of the State in which its place of effective management is situated.

## **ARTICLE 5**

### **Permanent establishment**

(1) For the purposes of this Agreement, the term "permanent establishment" means a fixed place of business through which the business of an enterprise is wholly or partly carried on.

(2) The term "permanent establishment" includes especially:

(a) a place of management;

(b) a branch;

(c) an office;

(d) a factory;

(e) a workshop; and

(f) a mine, an oil or gas well, a quarry or any other place of extraction of natural resources.

(3) A building site or construction or installation project constitutes a permanent establishment only if it lasts more than twelve months.

(4) Notwithstanding the preceding provisions of this Article, the term "permanent establishment" shall be deemed not to include:

- (a) the use of facilities solely for the purpose of storage, display or delivery of goods or merchandise belonging to the enterprise;
- (b) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage, display or delivery;
- (c) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise;
- (d) the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise, or of collecting information, for the enterprise;
- (e) the maintenance of a fixed place of business solely for the purpose of carrying on, for the enterprise, any other activity of a preparatory or auxiliary character;
- (f) the maintenance of a fixed place of business solely for any combination of activities mentioned in sub-paragraphs (a) to (e) above, provided that the overall activity of the fixed place of business resulting from this combination is of a preparatory or auxiliary character.

(5) Notwithstanding the provisions of paragraphs (1) and (2), where a person – other than an agent of an independent status to whom paragraph (6) applies – is acting on behalf of an enterprise and has, and habitually exercises, in a Contracting State an authority to conclude contracts on behalf of the enterprise, that enterprise shall be deemed to have a permanent establishment in that State in respect of any activities which that person undertakes for the enterprise, unless the activities of such person are limited to those mentioned in paragraph (4) which, if exercised through a fixed place of business, would not make this fixed place of business a permanent establishment under the provisions of that paragraph.

(6) An enterprise shall not be deemed to have a permanent establishment in a Contracting State merely because it carries on business in that State through a broker, general commission agent or any other agent of an independent status, provided that such persons are acting in the ordinary course of their business.

(7) The fact that a company which is a resident of a Contracting State controls or is controlled by a company which is a resident of the other Contracting State, or which carries on business in that other State (whether through a permanent establishment or otherwise), shall not of itself constitute either company a permanent establishment of the other.

## **ARTICLE 6**

### **Income from immovable property**

(1) Income derived by a resident of a Contracting State from immovable property (including income from agriculture or forestry) situated in the other Contracting State may be taxed in that other State.

(2) The term "immovable property" shall have the meaning which it has under the law of the Contracting State in which the property in question is situated. The term shall in any case include property accessory to immovable property, livestock and equipment used in agriculture and forestry, rights to which the provisions of general law respecting landed property apply, usufruct of immovable property and rights to variable or fixed payments as consideration for the working of, or the right to work, mineral deposits, sources and other natural resources; ships and aircraft shall not be regarded as immovable property.

(3) The provisions of paragraph (1) shall apply to income derived from the direct use, letting, or use in any other form of immovable property.

(4) The provisions of paragraphs (1) and (3) shall also apply to the income from immovable property of an enterprise.

## **ARTICLE 7**

### **Business profits**

- (1) The profits of an enterprise of a Contracting State shall be taxable only in that State unless the enterprise carries on business in the other Contracting State through a permanent establishment situated therein. If the enterprise carries on business as aforesaid, the profits of the enterprise may be taxed in the other State but only so much of them as is attributable to that permanent establishment.
- (2) Subject to the provisions of paragraph (3), where an enterprise of a Contracting State carries on business in the other Contracting State through a permanent establishment situated therein, there shall in each Contracting State be attributed to that permanent establishment the profits which it might be expected to make if it were a distinct and separate enterprise engaged in the same or similar activities under the same or similar conditions and dealing wholly independently with the enterprise of which it is a permanent establishment.
- (3) In determining the profits of a permanent establishment, there shall be allowed as deductions expenses which are incurred for the purposes of the permanent establishment, including executive and general administrative expenses so incurred, whether in the Contracting State in which the permanent establishment is situated or elsewhere.
- (4) No profits shall be attributed to a permanent establishment by reason of the mere purchase by that permanent establishment of goods or merchandise for the enterprise.
- (5) Where profits include items of income or capital gains which are dealt with separately in other Articles of this Agreement, then the provisions of those Articles shall not be affected by the provisions of this Article.
- (6) For the purposes of the preceding paragraphs, the profits to be attributed to the permanent establishment shall be determined by the same method year by year unless there is good and sufficient reason to the contrary.

## **ARTICLE 8**

### **Shipping and air transport**

- (1) Profits of an enterprise of a Contracting State from the operation of ships or aircraft in international traffic shall be taxable only in that State.
- (2) For the purposes of this Article, profits from the operation of ships or aircraft in international traffic include:
  - (a) profits from the rental on a bareboat basis of ships or aircraft; and
  - (b) profits from the use, maintenance or rental of containers (including trailers and related equipment for the transport of containers) used for the transport of goods or merchandise;where such rental or such use, maintenance or rental, as the case may be, is incidental to the operation of ships or aircraft in international traffic.
- (3) The provisions of paragraph (1) shall also apply to profits from the participation in a pool, a joint business or an international operating agency.

## **ARTICLE 9**

### **Associated enterprises**

(1) Where:

(a) an enterprise of a Contracting State participates directly or indirectly in the management, control or capital of an enterprise of the other Contracting State; or

(b) the same persons participate directly or indirectly in the management, control or capital of an enterprise of a Contracting State and an enterprise of the other Contracting State;

and in either case conditions are made or imposed between the two enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which would, but for those conditions, have accrued to one of the enterprises, but, by reason of those conditions, have not so accrued, may be included by a Contracting State in the profits of that enterprise and taxed accordingly.

(2) Where a Contracting State includes in the profits of an enterprise of that State - and taxes accordingly - profits on which an enterprise of the other Contracting State has been charged to tax in that other State and the profits so included are profits which would have accrued to the enterprise of the first-mentioned State if the conditions made between the two enterprises had been those which would have been made between independent enterprises, then that other State shall make an appropriate adjustment to the amount of the tax charged therein on those profits. In determining such adjustment, due regard shall be had to the other provisions of this Agreement and the competent authorities of the Contracting States shall if necessary consult each other.

## **ARTICLE 10**

### **Dividends**

(1) Dividends paid by a company which is a resident of a Contracting State to a resident of the other Contracting State may be taxed in that other State.

(2) However, such dividends may also be taxed in the Contracting State of which the company paying the dividends is a resident and according to the laws of that State, but if the beneficial owner of the dividends is a resident of the other Contracting State, the tax so charged shall not exceed:

(a) 5 per cent of the gross amount of the dividend if the beneficial owner is a company which is a resident of the other Contracting State and controls, directly or indirectly, at least 25 per cent of the capital of the company paying the dividends (other than where the dividends are paid by an investment vehicle as mentioned in subparagraph (b));

(b) 15 per cent of the gross amount of the dividends where those dividends are paid out of income (including gains) derived directly or indirectly from immovable property within the meaning of Article 6 by an investment vehicle which distributes most of this income annually and whose income from such immovable property is exempted from tax;

(c) 10 per cent of the gross amount of the dividends in all other cases.



(3) Notwithstanding the provisions of paragraph (2), such dividends shall be exempt from tax in the Contracting State of which the company paying the dividends is a resident if the beneficial owner of the dividends is a pension scheme.

Paragraphs (2) and (3) shall not affect the taxation of the company in respect of the profits out of which the dividends are paid.

(4) The term "dividends" as used in this Article means income from shares or other rights, not being debt-claims, participating in profits, as well as income from other corporate rights which is subjected to the same taxation treatment as income from shares by the laws of the Contracting State of which the company making the distribution is a resident and also includes any other item which, under the laws of the State of which the company paying the dividend is a resident, is treated as a dividend or distribution of a company.

(5) The provisions of paragraphs (1) and (2) shall not apply if the beneficial owner of the dividends, being a resident of a Contracting State, carries on business in the other Contracting State of which the company paying the dividends is a resident, through a permanent establishment situated therein, and the holding in respect of which the dividends are paid is effectively connected with such permanent establishment. In such case the provisions of Article 7 shall apply.

(6) Where a company which is a resident of a Contracting State derives profits or income from the other Contracting State, that other State may not impose any tax on the dividends paid by the company, except insofar as such dividends are paid to a resident of that other State or insofar as the holding in respect of which the dividends are paid is effectively connected with a permanent establishment situated in that other State, nor subject the company's undistributed profits to a tax on undistributed profits, even if the dividends paid or the undistributed profits consist wholly or partly of profits or income arising in that other State.

(7) No relief shall be available under this Article if it was the main purpose or one of the main purposes of any person concerned with the creation or assignment of the shares or other rights in respect of which the dividend is paid to take advantage of this Article by means of that creation or assignment.

## **ARTICLE 11**

### **Interest**

(1) Interest arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.

(2) However, such interest may also be taxed in the Contracting State in which it arises and according to the laws of that State, but if the beneficial owner of the interest is a resident of the other Contracting State, the tax so charged shall not exceed 5 per cent of the gross amount of the interest.

(3) Notwithstanding the provisions of paragraph (2), any such interest as is mentioned in paragraph (1) shall be taxable only in the Contracting State of which the recipient is a resident if the beneficial owner of the interest is a resident of that State and if such interest is paid:

(a) in connection with the sale on credit of any industrial, commercial or scientific equipment,

(b) in connection with the sale on credit of any merchandise by one enterprise to another enterprise, or

(c) on any loan of whatever kind granted by a bank.

(4) The term "interest" as used in this Article means income from debt-claims of every kind, whether or not secured by mortgage and whether or not carrying a right to participate in the debtor's profits, and in particular, income from government securities and income from bonds or debentures. The term shall not include any item which is treated as a dividend under the provisions of Article 10.

(5) The provisions of paragraphs (1), (2) and (3) shall not apply if the beneficial owner of the interest, being a resident of a Contracting State, carries on business in the other Contracting State in which the interest arises, through a permanent establishment situated therein, and the debt-claim in respect of which the interest is paid is effectively connected with such permanent establishment. In such case the provisions of Article 7 shall apply.

(6) Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the interest paid exceeds, for whatever reason, the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case, the excess part of the payments shall remain taxable according to the laws of each Contracting State, due regard being had to the other provisions of this Agreement.

(7) No relief shall be available under this Article if it was the main purpose or one of the main purposes of any person concerned with the creation or assignment of the debt-claim in respect of which the interest is paid to take advantage of this Article by means of that creation or assignment.

(8) Interest shall be deemed to arise in a Contracting State when the payer is a resident of that State. Where, however, the person paying the interest, whether he is a resident of a Contracting State or not, has in a Contracting State a permanent establishment in connection with which the indebtedness on which the interest is paid was incurred, and such interest is borne by such permanent establishment, then such interest shall be deemed to arise in the State in which the permanent establishment is situated.

## **ARTICLE 12**

### **Royalties**

- (1) Royalties arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.
- (2) However, such royalties may also be taxed in the Contracting State in which they arise and according to the laws of that State, but if the beneficial owner of the royalties is a resident of the other Contracting State, the tax so charged shall not exceed 5 per cent of the gross amount of the royalties.
- (3) The term "royalties" as used in this Article means payments of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work (including cinematograph films, and films or tapes for radio or television broadcasting), any patent, trade mark, design or model, plan, secret formula or process, or for information (know-how) concerning industrial, commercial or scientific experience.
- (4) The provisions of paragraphs (1) and (2) shall not apply if the beneficial owner of the royalties, being a resident of a Contracting State, carries on business in the other Contracting State in which the royalties arise, through a permanent establishment situated therein, and the right or property in respect of which the royalties are paid is effectively connected with such permanent establishment. In such case the provisions of Article 7 shall apply.
- (5) Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the royalties paid exceeds, for whatever reason, the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case, the excess part of the payments shall remain taxable according to the laws of each Contracting State, due regard being had to the other provisions of this Agreement.
- (6) No relief shall be available under this Article if it was the main purpose or one of the main purposes of any person concerned with the creation or assignment of the rights in respect of which the royalties are paid to take advantage of this Article by means of that creation or assignment.
- (7) Royalties shall be deemed to arise in a Contracting State when the payer is a resident of that Contracting State. Where, however, the person paying the royalties, whether he is a resident of a Contracting State or not, has in a Contracting State a permanent establishment in connection with which the obligation to pay the royalties was incurred, and such royalties are borne by such permanent establishment, then such royalties shall be deemed to arise in the Contracting State in which the permanent establishment is situated.

## **ARTICLE 13**

### **Capital gains**

- (1) Gains derived by a resident of a Contracting State from the alienation of immovable property referred to in Article 6 and situated in the other Contracting State may be taxed in that other State.
- (2) Gains derived by a resident of a Contracting State from the alienation of:

(a) shares, other than shares in which there is substantial and regular trading on a Stock Exchange, deriving more than 50 per cent of their value directly or indirectly from immovable property situated in the other Contracting State, or

(b) an interest in a partnership or trust, more than 50 per cent of the value of the assets of which consists of immovable property situated in the other Contracting State, or of shares referred to in sub-paragraph (a) of this paragraph,

may be taxed in that other State

(3) Gains from the alienation of movable property forming part of the business property of a permanent establishment which an enterprise of a Contracting State has in the other Contracting State, including such gains from the alienation of such a permanent establishment (alone or with the whole enterprise) may be taxed in that other State.

(4) Gains derived by a resident of a Contracting State from the alienation of ships or aircraft operated in international traffic by an enterprise of either of the Contracting States, or from the alienation of movable property pertaining to the operation of such ships or aircraft, shall be taxable only in the State of which the alienator is a resident.

(5) Gains from the alienation of any property other than that referred to in paragraphs (1), (2), (3) and (4) shall be taxable only in the Contracting State of which the alienator is a resident.

## **ARTICLE 14**

### **Income from employment**

(1) Subject to the provisions of Articles 15, 17, 18 and 20, salaries, wages and other similar remuneration derived by a resident of a Contracting State in respect of an employment shall be taxable only in that State unless the employment is exercised in the other Contracting State. If the employment is so exercised, such remuneration as is derived therefrom may be taxed in that other State.

(2) Notwithstanding the provisions of paragraph (1), remuneration derived by a resident of a Contracting State in respect of an employment exercised in the other Contracting State shall be taxable only in the first-mentioned State if:

(a) the recipient is present in the other State for a period or periods not exceeding in the aggregate 183 days in any twelve month period commencing or ending in the fiscal year concerned; and

(b) the remuneration is paid by, or on behalf of, an employer who is not a resident of the other State; and

(c) the remuneration is not borne by a permanent establishment which the employer has in the other State.

(3) Notwithstanding the preceding provisions of this Article, remuneration derived by a resident of a Contracting State in respect of an employment exercised aboard a ship or aircraft operated in international traffic shall be taxable only in that State.

## **ARTICLE 15**

### **Directors' fees**

Directors' fees and other similar payments derived by a resident of a Contracting State in his capacity as a member of the board of directors of a company which is a resident of the other Contracting State may be taxed in that other State.

## **ARTICLE 16**

### **Artistes and sportsmen**

(1) Notwithstanding the provisions of Articles 7 and 14, income derived by a resident of a Contracting State as an entertainer, such as a theatre, motion picture, radio or television artiste, or a musician, or as a sportsman, from his personal activities as such exercised in the other Contracting State, may be taxed in that other State.

(2) Where income in respect of personal activities exercised by an entertainer or a sportsman in his capacity as such accrues not to the entertainer or sportsman himself but to another person, that income may, notwithstanding the provisions of Articles 7 and 14, be taxed in the Contracting State in which the activities of the entertainer or sportsman are exercised.

## **ARTICLE 17**

### **Pensions**

(1) Subject to the provisions of paragraph (2) of Article 18, pensions and other similar remuneration paid (including annuities paid as part of a pension arrangement) to an individual who is a resident of a Contracting State, shall be taxable only in that State.

(2) Notwithstanding the provisions of paragraph (1), a lump sum payment derived from a pension scheme established in a Contracting State and beneficially owned by a resident of the other Contracting State shall be taxable only in the first-mentioned State.

(3) Contributions made by or on behalf of an individual who exercises employment or self-employment in a Contracting State ("the host state") to a pension scheme that is recognised for tax purposes in the other Contracting State ("the home state") shall, for the purposes of:

- (a) determining the individual's tax payable in the host state; and
- (b) determining the profits of his employer which may be taxed in the host state;

be treated in that State in the same way and subject to the same conditions and limitations as contributions made to a pension scheme that is recognised for tax purposes in the host state, to the extent that they are not so treated by the home state.

(4) The provisions of paragraph (3) shall apply only if:

- (a) the individual was not a resident of the host state, and was participating in the pension scheme (or in another similar pension scheme for which the first-mentioned pension scheme was substituted), immediately before he began to exercise employment or self-employment in the host state; and
- (b) the pension scheme is accepted by the competent authority of the host state as generally corresponding to a pension scheme recognised as such for tax purposes by that State.

- (5) For the purposes of this Article:
- (a) the term “a pension scheme” means an arrangement in which the individual participates in order to secure retirement benefits payable in respect of the employment or self-employment; and
  - (b) a pension scheme is recognised for tax purposes in a Contracting State if the contributions to the scheme would qualify for tax relief in that State and if payments made to the scheme by the individual’s employer are not deemed in that State to be taxable income of the individual.

## **ARTICLE 18**

### **Government service**

- (1) (a) Salaries, wages and other similar remuneration paid by a Contracting State or a political subdivision or a local authority thereof to an individual in respect of services rendered to that State or subdivision or authority shall be taxable only in that State.
- (b) However, such salaries, wages and other similar remuneration shall be taxable only in the other Contracting State if the services are rendered in that State and the individual is a resident of that State who:
- (i) is a national of that State; or
  - (ii) did not become a resident of that State solely for the purpose of rendering the services and is subject to tax in that State on such salaries, wages and other similar remuneration.
- (2) (a) Notwithstanding the provisions of paragraph (1), pensions and other similar remuneration paid by, or out of funds created by, a Contracting State or a political subdivision or a local authority thereof to an individual in respect of services rendered to that State or subdivision or authority shall be taxable only in that State.
- (b) However, such pensions and other similar remuneration shall be taxable only in the other Contracting State if the individual is a resident of, and a national of, that State.
- (3) The provisions of Articles 14, 15, 16 and 17 shall apply to salaries, wages, pensions and other similar remuneration in respect of services rendered in connection with a business carried on by a Contracting State or a political subdivision or a local authority thereof.

## **ARTICLE 19**

### **Students**

Payments which a student or business apprentice who is or was immediately before visiting a Contracting State a resident of the other Contracting State and who is present in the first-mentioned State solely for the purpose of his education or training receives for the purpose of his maintenance, education or training shall not be taxed in that first-mentioned State, provided that such payments arise from sources outside that State.

## **ARTICLE 20**

### **Teachers and researchers**

(1) An individual who visits a Contracting State for the purpose of teaching or carrying out research at a university, college, school or other similar educational institution which is recognised in that Contracting State, and who is or was immediately before visiting a resident of the other Contracting State, shall be exempt from taxation in the first-mentioned Contracting State on remuneration for such teaching or research for a period not exceeding two years from the date of his first visit for that purpose.

(2) The provisions of paragraph (1) shall not apply to income derived from research, if such research is undertaken not in the public interest but primarily for the private benefit of a specific person or persons.

## **ARTICLE 21**

### **Other income**

(1) Items of income beneficially owned by a resident of a Contracting State, wherever arising, which are not dealt with in the foregoing Articles of this Agreement other than income paid out of trusts or the estates of deceased persons in the course of administration, shall be taxable only in that State.

(2) The provisions of paragraph (1) shall not apply to income, other than income from immovable property as defined in paragraph (2) of Article 6 if the beneficial owner of such income, being a resident of a Contracting State, carries on business in the other Contracting State through a permanent establishment situated therein, and the right or property in respect of which the income is paid is effectively connected with such permanent establishment. In such case the provisions of Article 7 shall apply.

(3) Where, by reason of a special relationship between the resident referred to in paragraph (1) and some other person, or between both of them and some third person, the amount of the income referred to in that paragraph exceeds the amount, if any, which would have been agreed upon between them in the absence of such a relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such a case, the excess part of the income shall remain taxable according to the laws of each Contracting State, due regard being had to the other applicable provisions of this Agreement.

(4) No relief shall be available under this Article if it was the main purpose or one of the main purposes of any person concerned with the creation or assignment of the rights in respect of which the income is paid to take advantage of this Article by means of that creation or assignment.

## **ARTICLE 22**

### **Elimination of double taxation**

(1) Subject to the provisions of the law of the United Kingdom regarding the allowance as a credit against United Kingdom tax of tax payable in a territory outside the United Kingdom or, as the case may be, regarding the exemption from United Kingdom tax of a dividend arising in a territory outside the United Kingdom (which shall not affect the general principle hereof):

- (a) Croatian tax payable under the laws of Croatia and in accordance with this Agreement, whether directly or by deduction, on profits, income or chargeable gains from sources within Croatia (excluding in the case of a dividend tax payable in respect of the profits out of which the dividend is paid) shall be allowed as a credit against any United Kingdom tax computed by reference to the same profits, income or chargeable gains by reference to which the Croatian tax is computed;
  - (b) a dividend which is paid by a company which is a resident of Croatia to a company which is a resident of the United Kingdom shall be exempted from United Kingdom tax, when the conditions for exemption under the law of the United Kingdom are met;
  - (c) in the case of a dividend not exempted from tax under sub-paragraph (b) above (because the conditions for exemption under the law of the United Kingdom are not met) which is paid by a company which is a resident of Croatia to a company which is a resident of the United Kingdom and which controls directly or indirectly at least 10 per cent of the voting power in the company paying the dividend, the credit mentioned in sub-paragraph (a) above shall also take into account the Croatian tax payable by the company in respect of its profits out of which such dividend is paid.
- (2) In the case of Croatia, double taxation shall be avoided as follows:
- (a) Where a resident of Croatia derives income or capital gains which, in accordance with the provisions of this Agreement, may be taxed in the United Kingdom, Croatia shall allow as a deduction from the tax on the income or capital gains of that resident, an amount equal to the tax paid in the United Kingdom.  
  
Such deduction shall not, however, exceed that part of the tax, as computed before the deduction is given, which is attributable, as the case may be, to the income or the capital gains which may be taxed in the United Kingdom.
  - (b) Where, in accordance with any provision of this Agreement, income or capital gains derived by a resident of Croatia are exempt from tax in Croatia, Croatia may nevertheless, in calculating the amount of tax on the remaining income or capital gains of such resident, take into account the exempted income or capital gains.
- (3) For the purposes of paragraphs (1) and (2), profits, income and capital gains derived by a resident of a Contracting State which may be taxed in the other Contracting State in accordance with this Agreement shall be deemed to arise from sources in that other State.

## **ARTICLE 23**

### **Non-discrimination**



(1) Nationals of a Contracting State shall not be subjected in the other Contracting State to any taxation or any requirement connected therewith, which is other or more burdensome than the taxation and connected requirements to which nationals of that other State in the same circumstances, in particular with respect to residence, are or may be subjected.

(2) The taxation on a permanent establishment which an enterprise of a Contracting State has in the other Contracting State shall not be less favourably levied in that other State than the taxation levied on enterprises of that other State carrying on the same activities.

(3) Except where the provisions of paragraph (1) of Article 9, paragraph (6) or (7) of Article 11, paragraph (5) or (6) of Article 12, or paragraph (3) or (4) of Article 21 apply, interest, royalties and other disbursements paid by an enterprise of a Contracting State to a resident of the other Contracting State shall, for the purpose of determining the taxable profits of such enterprise, be deductible under the same conditions as if they had been paid to a resident of the first-mentioned State.

(4) Enterprises of a Contracting State, the capital of which is wholly or partly owned or controlled, directly or indirectly, by one or more residents of the other Contracting State, shall not be subjected in the first-mentioned State to any taxation or any requirement connected therewith which is other or more burdensome than the taxation and connected requirements to which other similar enterprises of the first-mentioned State are or may be subjected.

(5) Nothing contained in this Article shall be construed as obliging either Contracting State to grant to residents of the other Contracting State any of the personal allowances, reliefs and reductions for taxation purposes on account of civil status or family responsibilities which it grants to its own residents or to its nationals.

(6) The provisions of this Article shall apply to the taxes which are the subject of this Agreement.

## **ARTICLE 24**

### **Mutual agreement procedure**

(1) Where a person considers that the actions of one or both of the Contracting States result or will result for him in taxation not in accordance with the provisions of this Agreement, he may, irrespective of the remedies provided by the domestic law of those States, present his case to the competent authority of the Contracting State of which he is a resident or, if his case comes under paragraph (1) of Article 23, to that of the Contracting State of which he is a national. The case must be presented within three years from the first notification of the action resulting in taxation not in accordance with the provisions of this Agreement or, if later, within six years from the end of the taxable year or chargeable period in respect of which that taxation is imposed or proposed.

(2) The competent authority shall endeavour, if the objection appears to it to be justified and if it is not itself able to arrive at a satisfactory solution, to resolve the case by mutual agreement with the competent authority of the other Contracting State, with a view to the avoidance of taxation which is not in accordance with this Agreement. Any agreement reached shall be implemented notwithstanding any time limits or other procedural limitations in the domestic law of the Contracting States, except such limitations as apply to claims made in pursuance of such an agreement.

(3) The competent authorities of the Contracting States shall endeavour to resolve by mutual agreement any difficulties or doubts arising as to the interpretation or application of this Agreement.

(4) The competent authorities of the Contracting States may communicate with each other directly for the purpose of reaching an agreement in the sense of the preceding paragraphs.

## **ARTICLE 25**

### **Exchange of information**

(1) The competent authorities of the Contracting States shall exchange such information as is foreseeably relevant for carrying out the provisions of this Agreement or to the administration or enforcement of the domestic laws concerning taxes of every kind and description imposed on behalf of the Contracting States, or of their political subdivisions or local authorities, insofar as the taxation thereunder is not contrary to this Agreement, in particular, to prevent fraud and to facilitate the administration of statutory provisions against legal avoidance. The exchange of information is not restricted by Articles 1 and 2.

(2) Any information received under paragraph (1) by a Contracting State shall be treated as secret in the same manner as information obtained under the domestic laws of that State and shall be disclosed only to persons or authorities (including courts and administrative bodies) concerned with the assessment or collection of, the enforcement or prosecution in respect of, or the determination of appeals in relation to, the taxes referred to in paragraph (1), or the oversight of the above. Such persons or authorities shall use the information only for such purposes. They may disclose the information in public court proceedings or in judicial decisions.

(3) In no case shall the provisions of paragraphs (1) and (2) be construed so as to impose on a Contracting State the obligation:

- (a) to carry out administrative measures at variance with the laws and administrative practice of that or of the other Contracting State;
- (b) to supply information which is not obtainable under the laws or in the normal course of the administration of that or of the other Contracting State;
- (c) to supply information which would disclose any trade, business, industrial, commercial or professional secret or trade process, or information whose disclosure would be contrary to public policy.

(4) If information is requested by a Contracting State in accordance with this Article, the other Contracting State shall use its information gathering measures to obtain the requested information, even though that other State does not need such information for its own tax purposes. The obligation contained in the preceding sentence is subject to the limitations of paragraph (3) but in no case shall such limitations be construed to permit a Contracting State to decline to supply information solely because it has no domestic interest in such information.

(5) In no case shall the provisions of paragraph (3) be construed to permit a Contracting State to decline to supply information solely because the information is held by a bank, other financial institution, nominee or person acting in an agency or a fiduciary capacity or relates to ownership interests in a company or any other body of persons.

## **ARTICLE 26**

### **Members of diplomatic or permanent missions and consular posts**

Nothing in this Agreement shall affect the fiscal privileges of members of diplomatic or permanent missions or consular posts under the general rules of international law or under the provisions of special agreements.

## **ARTICLE 27**

### **Entry into force**

(1) Each of the Contracting States shall notify the other, through diplomatic channels, of the completion of the procedures required by its law for the bringing into force of this Agreement. This Agreement shall enter into force on the date of the later of these notifications and shall thereupon have effect:

(a) in the United Kingdom:

- (i) in respect of taxes withheld at source, to income derived on or after 1st January in the calendar year next following that in which this Agreement enters into force;
- (ii) subject to sub-paragraph (a)(i) above:  
  
in respect of income tax and capital gains tax, for any year of assessment beginning on or after 6th April in the calendar year next following that in which this Agreement enters into force;
- (iii) in respect of corporation tax, for any financial year beginning on or after 1st April in the calendar year next following that in which this Agreement enters into force;

(b) in Croatia:

- (i) in respect of taxes withheld at source, to income derived on or after 1st January in the calendar year next following that in which this Agreement enters into force;
- (ii) in respect of other taxes on income and capital gains, to taxes chargeable for any taxable year beginning on or after 1st January of the calendar year next following that in which this Agreement enters into force.

(2) The Convention between the Socialist Federal Republic of Yugoslavia and the United Kingdom of Great Britain and Northern Ireland for the Avoidance of Double Taxation with Respect to Taxes on Income, signed at London on 6th November 1981, shall cease to be effective with respect to any Croatian or United Kingdom tax on the date upon which the present Agreement becomes effective in relation to that tax in accordance with the provisions of paragraph (1).

## **ARTICLE 28**

### **Termination**

This Agreement shall remain in force until one of the Contracting States gives written notice of its intention to denounce the Agreement to the other Contracting State through diplomatic channels, on or before the thirtieth day of June in any calendar year after the expiration of a period of five years from the date of its entry into force. In such event this Agreement shall cease to have effect:

(a) in the United Kingdom:

- (i) in respect of taxes withheld at source, to income derived on or after 1st January in the calendar year next following that in which the notice is given;
- (ii) subject to sub-paragraph (a)(i) above:  
in respect of income tax and capital gains tax, for any year of assessment beginning on or after 6th April in the calendar year next following that in which the notice is given;
- (iii) in respect of corporation tax, for any financial year beginning on or after 1st April in the calendar year next following that in which the notice is given;

(b) in Croatia:

- (i) in respect of taxes withheld at source, to income derived on or after 1st January in the calendar year next following that in which the notice is given;
- (ii) in respect of other taxes on income and capital gains, to taxes chargeable for any taxable year beginning on or after 1st January of the calendar year next following that in which the notice is given.

**In witness whereof** the undersigned, duly authorised thereto, have signed this Agreement.

**Done** in duplicate at Zagreb this 15th day of January 2015 in the Croatian and English languages, both texts being equally authoritative.

**For the Republic of Croatia**

**For the United Kingdom of Great Britain  
and Northern Ireland**

*Vesna Pusić*

*Philip Hammond*

## **PROTOCOL**

At the moment of signing this Agreement between the Republic of Croatia and the United Kingdom of Great Britain and Northern Ireland for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and on capital gains, the undersigned have agreed that the following provisions shall form an integral part of the Agreement:

1. *With reference to sub-paragraph (l) of paragraph (1) of Article 3*

It is understood that the term "pension scheme" includes the following and any identical or substantially similar schemes which are established pursuant to legislation introduced after the date of signature of the Agreement:

- (a) in the case of the United Kingdom, pension schemes (other than a social security scheme) registered under Part 4 of the Finance Act 2004, including pension schemes arranged through insurance companies and unit trusts where the unit trusts holders are exclusively pension schemes;
- (b) in the case of Croatia, pension schemes established according to the Pension Insurance Act and the Mandatory and Voluntary Pension Fund Act.

2. *With reference to Article 4*

It is understood that the term “resident of a Contracting State” includes:

- a) a pension scheme established in that State; and
- b) an organisation that is established and is operated exclusively for religious, charitable, scientific, cultural, or educational purposes (or for more than one of those purposes) and that is a resident of that State according to its laws, notwithstanding that all or part of its income or gains may be exempt from tax under the domestic law of that State.

3. *With reference to paragraph (2) of Article 11 (Interest) and paragraph (2) of Article 12 (Royalties)*

It is agreed that if any agreement or convention between Croatia and a member state of the Organisation for Economic Co-operation and Development entering into force after the date of entry into force of the Agreement provides that Croatia shall exempt from tax interest or royalties (either generally or in respect of specific categories of interest or royalties) arising in Croatia, or limit the tax charged in Croatia on such interest or royalties (either generally or in respect of specific categories of interest or royalties) to a rate lower than that provided for in paragraph (2) of Article 11 or paragraph (2) of Article 12 of the Agreement, such exemption or lower rate shall automatically apply to interest or royalties (either generally or in respect of those specific categories of interest or royalties) arising in Croatia and beneficially owned by a resident of the United Kingdom and interest or royalties arising in the United Kingdom and beneficially owned by a resident of Croatia under the same conditions as if such exemption or lower rate had been specified in those paragraphs. The competent authority of Croatia will inform the competent authority of the United Kingdom that the conditions for the application of this paragraph have been met.

**In witness whereof** the undersigned, duly authorised thereto, have signed this Protocol.

**Done** in duplicate at Zagreb this 15th day of January 2015 in the Croatian and English languages, both texts being equally authoritative.

**For the Republic of Croatia**

**For the United Kingdom of Great Britain  
and Northern Ireland**

*Vesna Pusić*

*Philip Hammond*

## EXPLANATORY NOTE

*(This note is not part of the Order)*

The Schedule to this Order contains an Agreement and Protocol (“the Arrangements”) between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Republic of Croatia dealing with the avoidance of double taxation and the prevention of fiscal evasion. This Order brings the Arrangements into effect.

The Arrangements aim to eliminate the double taxation of income and gains arising in one country and paid to residents of the other country. This is done by allocating the taxing rights that each country has under its domestic law over the same income and gains, and/or by providing relief from double taxation. There are also specific measures which combat discriminatory tax treatment and provide for assistance in international tax enforcement.

Article 1 provides for citation.

Article 2 makes a declaration as to the effect and content of the Arrangements.

The Arrangements will enter into force on the date of the later of the notifications by each country of the completion of its legislative procedures. They will take effect as follows:

- (a) in respect of taxes withheld at source, to income derived on or after 1st January next following the date of entry into force;
- (b) in Croatia, in respect of other taxes for taxable years beginning on or after 1st January next following the date of entry into force;
- (c) in the United Kingdom:
  - (i) subject to paragraph (a) above, in respect of income tax and capital gains tax, for any year of assessment beginning on or after 6th April next following the date of entry into force; and
  - (ii) in respect of corporation tax, for any financial year beginning on or after 1st April next following the date of entry into force.

Until such time as the Arrangements enter into force, the Convention set out in the Double Taxation Relief (Taxes on Income) (Yugoslavia) Order 1981 (S.I. 1981/1815), continues to have effect insofar as that Convention applies to Croatia.

The date of entry into force will, in due course, be published in the *London, Edinburgh and Belfast Gazettes*.

A Tax Information and Impact Note has not been produced for this Order as it gives effect to a previously announced policy to enact a double taxation agreement.

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