

Description of the Croatian legal context regarding the local fiscal policies and the Renewable Energy Sources

0 Introduction

The local authorities manage some local taxes and most of the local fees/tariffs and concessions, being entitled to define extra charges, reductions or exemptions to promote the renewable energy sources. Actually, in Croatia there are some examples of local policies to promote RES. Some local authorities' signatories of the Covenant of Mayors (City of Zagreb, City of Koprivnica, City of Ogulin, City of Čakovce, City of Jastrebarsko etc.) established a reduction of the public utility charge by the City Council for new buildings in the household and commercial sector using renewable energy sources.

1 What **taxes** do the local authorities usually manage? Can they be used by the local authorities to promote the Renewable Energy Sources?

In Croatia, the local authorities manage the following taxes:

- Surtax on income tax: the taxable persons are the taxpayers who have a domicile or habitual residence in the territory of the municipality/city that stipulated the obligation of payment of municipal taxes.
- Consumption tax: the taxable persons are the legal and natural persons who provide catering services; the taxable basis is the selling price of drinks that are sold in restaurants.
- Tax on holiday houses: the taxable persons are the legal and natural persons who are the owners of holiday homes. The subject of taxation is the square meter of the usable area of the holiday house.
- Tax on the use of public land: the taxable person is the legal and physical person using the public space. The tax amount depends on the public areas used by legal and natural persons.
- Real estate transfer tax: the taxable persons are the acquirer of real estate in Croatia when value added tax (VAT) is not paid on such acquisition. The tax depends on the market value of the real estate at the moment when the tax liability incurs.

Furthermore, it is worth to mention the local authorities receive revenues from the income tax, managed jointly by the state and the local authorities (a part of the income tax revenues is allocated to the national budget and a part to the county, city or municipal budget). Some modifications of the legislation could be introduced in 2018. Namely, it has been proposed that the income tax collected within the territory of a city/municipality/county will be entirely a direct revenue of local and regional administrations.

Some of the listed taxes that are regulated directly by the state and the local authorities, cannot define extra charges, reductions or exemptions (consumption tax, real estate

transfer tax and other income taxes are managed jointly by state and local authorities). Other taxes can be defined by the local authorities with more autonomy but it is not possible to modify them to promote the renewable energy sources. Namely, the surtax on income and the tax on holiday homes are not applicable for supporting introduction of renewable energy sources. Although they are defined within city or municipal levels, households with installed RES cannot be singled out and awarded with a lower tax rate (only one tax rate can be introduced for all tax payers). The tax on the use of public land leaves room to define measures to promote the renewable energy sources.

2 What **tariffs/fees** do the local authorities usually manage? Can they be used by the local authorities to promote the Renewable Energy Sources?

The Croatian local authorities manage many tariffs and fees, the most important are:

- **Public utility management:** In terms of the Utility Management Act, public utility activities comprise: Public passenger transport, maintenance of cleanliness in public areas, maintenance of public areas, unclassified roads, outdoor retail market places, as well as the maintenance of cemeteries and crematoriums, carrying out chimney sweeping works, and public lighting.
- **Public utility charge:** Public utility charges are pecuniary public duties, paid for the construction and use of facilities and equipment of public utility infrastructure: Public areas, unclassified roads, cemeteries and crematoriums, and public lighting. Public utility charges are revenues of local self-government units and are paid by the owner of the building plot on which the construction work is built, or by the investor respectively.
- **Location permit:** A location permit is issued for: Exploitation fields, construction of mining facilities and installations which are used for performing mining activities, hydrocarbon storage and permanent disposal of gases in geological structures; Determining new military locations and military construction works; Projects which pursue special building regulations are not considered to be construction, stage and/or phase construction of a construction work. Construction on land or building for which the investor has not regulated legal property relations or for which it is necessary to implement the expropriation procedure.
- **Building permit:** The construction/reconstruction of a construction work may commence only on the basis of a building permit. The application for a building permit issuance shall be submitted by the investor to the competent office for construction and physical planning, in the place where construction or reconstruction of a construction work is planned.
- **Use permit:** A completed or reconstructed construction work may be used, or put into operation and a decision may be issued for performing activities in that construction work pursuant to a special act, after a use permit has been issued for that construction work.
- **Monument Annuity:** Monument annuity is paid monthly from 1 HRK to 4 HRK per square meter of office space located in cultural property or in the area of cultural and historical whole.

The local authorities can determine extra charges, reductions or exemptions in such fees and tariffs. Since some of the mentioned fees are related to relevant sectors (building sectors, etc.), there is room to promote the renewable energy sources throughout extra charges, reductions or exemptions in such fees and tariffs.

3 What other fiscal revenues (see definition in the glossary) do the local authorities usually manage? Can they be used by the local authorities to promote the Renewable Energy Sources?

The local authorities receive other revenues from the following sources:

- Concession for the exploitation of mineral raw materials.
- Concession for public water.
- Concession for local public transport.
- Concession in the energy sector.
- Concession for utility activities.

Some of the concessions (namely the concession for public water, the concession for local public transport, and the concession for utility activities) can be used by the local authorities to promote the renewable energy sources, since they are entitled to define such concessions.

4 Glossary

Municipalities or local authorities

The methodology has been designed for local authorities, considered as Local Administrative Units (LAUs) under the EUROSTAT classification in its correspondence table (EUROSTAT, 2016), which was created to facilitate the comparison of administrative structures in each member country. The methodology has particularly been designed for local administrative units classified as LAU1, whose administrative boundaries correspond to a single Local Administrative Unit. Furthermore, the methodology covers Local Administrative Units classified as LAU2, whose administrative boundaries include various compulsory local administrative units. Therefore, voluntary associations are not included in this category. In the case of Greece and Portugal, for example, this clarification is important as their administrative systems provide for local authorities classified as LAU1 and LAU2 by EUROSTAT. We will use local authorities, public bodies and municipalities interchangeably in this guidebook to refer to all local authorities/bodies classified as LAU1 and LAU2 by EUROSTAT.

Fees, taxes, tariffs and charges

One of the challenges in promoting renewable energy through fiscal policies at local level is the differences that exist among local legal systems, as well as the differences between concepts and terms relating to local fiscal systems. In this regard, the guidebook takes into account that local fiscal policies include different concepts, such as taxes, fees, charges

and tariffs. All these concepts share the common characteristic of being revenue that municipalities receive by virtue of being public powers. Even though these types of tax-related revenue may have different names in each country and may include different aspects, even if they do share the same name, the essential features that we refer to in this guidebook are set out below.

The sole aim of this conceptualisation, beyond the legal-administrative, is that the different types of tax-related revenues in each country may relate to one concept or another.

Taxes and fees

Both concepts are forms of revenue deriving from State taxation power. Both are revenues that a taxable entity has to pay when a situation arises for which there is an obligation to pay, taking coercive measures in the event of non-payment. In general, the ability of taxpayers to pay is taken into consideration when establishing and managing both cases. They are both at the top in terms of strictness regarding their imposition formalities and management requirements.

Taxes: have to be paid on receiving an income, being the owner of property and undertaking a particular activity. For example: income tax, immovable property tax and VAT. In general, the wealth that one declares is taxed.

Fees: have to be paid for using a public service or for occupying public-owned property. For example: fees for occupying a stall in a municipal market, entering a municipal swimming pool, studying a training course taught by the municipality, receiving a healthcare service provided by the municipality, receiving a waste collection service and a water supply service, etc. In some cases, the obligation to pay for waste collection and water supply services, for example, arises from the mere fact of being the owner or tenant of a property who could potentially, although in actual fact may not, use the service.

Tariffs

The difference between tariffs and fees is not very clear. For the purpose of this guidebook, a tariff is the amount to pay for using a property or facility, or for the provision of a public service when it is managed through a public-owned company or when it is paid to a concessionaire of a public service.

Charges

Charges are both the amount a public authority pays a concessionaire to provide a service and the amount paid by a concessionaire to the public authority in order to provide such service.

It must be borne in mind that in some cases the public authority pays the provider for the service and in others it charges the provider of the service.

The difference emerges when the municipality pays, then later charges the users of the service, and when it charges the concessionaire, which then charges the users of such service.

What is a concessionaire?

For the purpose of this guidebook, a concession is a right granted by a public authority or public company to another actor, usually private, to operate public property or services for a fixed period of time.

The management and, occasionally, the tariff collection is transferred to the concessionaire through what is known as a Public–Private Partnership (PPP). The public authority holds the ownership and policing power of the service, while the concessionaire physically provides it, receiving a payment called a tariff.

The concessionaire is, therefore, the title holder of the concession.

Non-ETS sectors:

The methodology centres on municipal fiscal policies that affect the so-called non-ETS sectors. Said sectors undertake activities that are not subject to the Emissions Trading System (ETS). They represent, therefore, the sectors that use energy less intensively. The following sectors are included in this category:

- ✓ Residential, commercial and institutional
- ✓ Transport
- ✓ Agriculture and farming
- ✓ Waste management
- ✓ Fluorinated gases
- ✓ Industrial not subject to trade emissions.

(Filippi, F., García Maties, R., 2017, 13-15).

5 Bibliography

Republic of Croatia, Ministry of Finance.

Filippi, F., García Maties, R., (2017). *Participatory method-based preparation of local fiscal policies to promote renewable energy sources at a municipal level*. València: Fundación MUSOL.