

Abolishing Tax Breaks for Young Adults

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Proposal to abolish the exemption measure for calculating contribution liabilities for young adults under 30 years of age

The American Chamber of Commerce in Croatia welcomes the various tax changes through continued rounds of tax reforms introduced in recent years, which have contributed to tax relief, improved business certainty, and economic growth in Croatia.

AmCham welcomes this year's proposals to raise the threshold for entering the higher tax bracket from €4,200 per month (€50,400 per year) to €5,000 per month (€60,000 per year), along with the increase in the personal deduction from €560 to €600 and a modest reduction in income tax rates. Additionally, AmCham welcomes the proposal to raise the threshold for taxpayers to enter the VAT system from €40,000 to €50,000.

However, we find it beneficial to retain the exemption measure when calculating contribution liabilities for young adults under 30 years of age with whom the employer enters into a permanent employment contract.

The exemption from contribution liabilities for young people under 30 was introduced to encourage the employment of young individuals on a permanent basis. This measure was introduced as a response to the high unemployment rate, which stood at 19.6% in 2014, with youth unemployment being particularly concerning at 43.9% during the same period. The aim of this measure was to reduce the proportion of young unemployed individuals in the total unemployed population and to encourage employers to hire young workers.

The proposed abolition of the measure is now being justified by the significant decline in unemployment, which in 2023 was 6.1%, compared to 19.6% in 2014, as previously mentioned. Moreover, it has been argued that, due to the heightened demand for labor, which is increasingly being met by foreign workers, the measures aimed at promoting employment through exemptions from the contribution liabilities calculated from the tax base, i.e., for mandatory health insurance for young people, are losing their relevance. Additionally, the effects of abolishing this measure on ensuring equal treatment within the contribution system for all age groups in the working population, as well as the sustainability of the health insurance system, have been highlighted.

However, despite the significant reduction in the overall unemployment rate, data from the Croatian Employment Service and Eurostat indicates that the average unemployment rate for young people aged 15 to 29 in Croatia in 2023 remained relatively high at 13%, compared to the EU average of 11.2%. In 2023, young people accounted for 24.2% of total unemployment, which decreased slightly to 23.2% in April 2024. This means that nearly one in four unemployed individuals in Croatia is under the age of 30. These figures highlight the ongoing need to promote youth employment rather than abolish existing support measures. Abolishing the measure could result in a decline in youth employment, as employers may feel less incentivized to hire this age group since young workers often require additional investment in education and experience, which can increase overall business costs. A decline in youth employment can lead to adverse social consequences, as financial insecurity may impact decisions regarding family planning and could further encourage emigration – a challenge Croatia already faces and needs to address more proactively.



While proponents of the regulatory change cite the current rise in labor demand as a reason for deeming this employment incentive unnecessary, young people may still find themselves at a disadvantage in the job market. Their lack of work experience and the specific skills sought by employers, compounded by the high costs of education and training, can make them less competitive compared to seasoned workers or cheaper (even if sometimes experienced) foreign labor.

The measure benefits young individuals by allowing employers to allocate the savings from health insurance contributions toward offering higher gross salaries. This, in turn, enables young workers to achieve a better standard of living, particularly in light of the significant rise in living costs in recent years.

The Ministry of Finance further emphasized that abolishing the exemption would improve the sustainability of the health insurance system, predicting an increase in revenues for the Croatian Institute for Health Insurance of €80 million in 2025, €160 million in 2026, and €240 million in 2027. However, this perspective does not consider the negative impact of rising labor costs on all economic entities, which may result in reduced funds for salary increases as well as for further investments and innovations. Employers might have to adapt their business strategies to optimize costs, potentially leading to downsizing and a shift toward automation. This trend is already noticeable in the IT sector, where the adoption of generative artificial intelligence (GenAI) is on the rise.

In light of the necessity to identify additional strategies for retaining workers and promoting youth employment in Croatia, AmCham suggests that the measure be retained.

Furthermore, starting January 1 of next year, the minimum gross salary will increase by 15 percent, rising from this year's €840 to €970. Given this change, the abolition of the exemption measure places employers under double pressure due to the rising overall costs. The aforementioned factors negatively impact cash flow and operations, significantly hindering investment potential.

In light of the above, AmCham recommends that the Government retain the measure to prevent adverse effects on overall youth employment, which could negatively influence population policy and diminish young people's motivation to choose Croatia as the focal point of their life pursuits.

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