RELATIONSHIP BETWEEN CORPORATE INCOME TAX REPORTING & ANNUAL REPORTS IN EU AND CROATIA

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ABSTRACT

In every country accounting system is related to tax legislation. Taxes are public revenues with a purpose to finance the state and public needs. There are certain information needed so taxes could be collected. This information is provided by individuals and legal entities by bookkeeping and generally by giving certain information to Tax Department (administrative unit within Ministry of Finance). Therefore, we are going to write about accounting legislations which are obligatory for taxpayers keeping in mind that they should present fair and true information in their financial records and financial statements and also about accountancy as a source of information for determining tax obligations and tax basis. Each company's management can prepare financial statements for their own use in different ways which are the most appropriate for internal needs of management. When the financial statements are issued for others, like shareholders, employees, creditors and general public they should be prepared in accordance with general accepted accounting standards (e.g.:

International Financial Reporting Standards) and when the financial statements are prepared for tax purposes they should be in accordance with tax legislation.

In last few years European Union fiscal policy is very much associated with development of internal market. European Union goals and efforts are clear, harmonization or even standardization of member countries tax systems. However, it has become clear that it is hard to achieve that, especially overall, but as long as key principals of internal market (free movement of goods, people, services and capital) are not threatened, attempts will go on.

When we talk about specifics of relationship between accountancy and tax legislation of certain Member Countries of the EU, it mainly refers to differences in financial reporting for accounting and for tax purposes. Those differences are mainly manifested in corporate income tax, both in Croatia and in Member Countries of the EU.

The main hypothesis in this paper is to prove that tax legislation dominate over accounting legislation, especially in SME's. Croatian method of financial reporting belongs to a group along with Germany and France, that is, countries with continental approach, which give emphasis only to existence of dual accounting, but don't apply it completely in practice. The mainstream and trend in EU is that all countries are leaving (especially transition countries) the concept of Accounting Law and preparing for SME's National Accounting Standards. Croatian accounting regulations is still based on Accounting Law (by the Law everybody are obligated on IFRS) and it is very difficult for SME's to apply all the IFRS. So, Croatian SME's are mostly using Corporate income tax Law and VAT Law because it is simpler and then they are not obligated to prepare two sets[1] of financial statements but only one which can be used in both purposes : state purpose and owner purpose. Respectively, it would be better to say that tax legislation has a strong fingerprint over accounting legislation.

Keywords: Croatia, EU, Corporate Income Tax, Financial Reporting

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[1] Dual concept of financial reporting.

1. The Purpose of Financial Reporting and Profit Taxation

Although they are based on the same data, financial statements and profit tax return have different purpose. From the above stated, arises their similarity and their diversity. Similarity, along with correlation, is result of a fact that profit tax return, same as financial statements, are based on data which are collected by and processed in accounting department.[2] On the other hand, financial statements objectives and profit tax return objectives are fairly different.

According to Framework for the Preparation and Presentation of Financial Statements the objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions.

The objective of profit tax return, as an instrument of determining corporate income tax, is to fulfil requests which are set upon corporate income tax and that is to provide public revenue for the purpose of financing the state and public needs. Additionally, taxation "is also used as an instrument of government economic and social policy" (James, 2006).

Stated objectives along with purposes of financial reporting and corporate income taxation can be similar but sometimes also confronted, whereat continuity (permanence), of used principles and valuation methods, has important place, especially from the taxation point of view.

The result of possible differences between valuation of financial statements elements and income tax basis can be sorted in two groups:

1. temporary differences
2. permanent differences.

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[2]Although this correlation is general, in theoretical and practical way, and unquestionable it should be emphasized that article 53-55 of General Tax Act in Croatia determine that for the taxation purposes every taxpayer – entrepreneur is obliged to maintain business ledgers. Income taxpayer is obliged to simple bookkeeping, and profit taxpayer is obliged to double-entry bookkeeping. In article 33 of Profit Tax Act it is regulated that the tax base shall be determined on the basis of the data recorded in the business books, which shall be maintained in accordance with the regulations on accounting and financial reports to be drawn up pursuant to them balance sheet and profit and loss account).

According to IAS 12 – Income Taxes temporary differences are differences between the carrying amount of an asset or liability in the balance sheet and its tax base. In other words, temporary differences in expenditures are discrepancies between accounting profit and the tax base because **tax deductible** expenditures are included in different periods (different years) in assessing business results (accounting profit or loss). In revenue, temporary differences emerge in revenues which are included in the calculation of company's performance and profit tax base, but in the establishment of the profit tax base and accounting profit they are included in different business years. Temporary differences emerge in one or more periods, and are cancelled in one or more periods. Tax impacts of temporary differences are reported in the accounting of profit tax payers as an assets item (deferred tax assets) or as a liabilities item (deferred tax liabilities).

Permanent differences in expenditures/revenues emerge because the amounts of expenditures/revenues reported in financial statements are permanently tax non-recognised expenditures/revenues.

2. Financial Reporting and Determining Profit Tax Basis in Croatia

Looking back, IAS/IFRS in Croatia are in use since 1993. Their use is regulated in Accounting Act since than. New Accounting Act from 2005 regulated use of IAS/IFRS for all big[3] entrepreneurs listed on the stock exchange or those who voluntarily choose to use them. All others use standards developed by Financial Accounting Standards Board[4]. Currently that means using IAS/IFRS issued 2000[5]. Also, because of the requirements came out of negotiations on full membership[6] in EU, it has been decided to develop Croatian Accounting Standards (CAS) which will include regulations contained in 4 and 7 EU Directive. In other words, there are two sets of accounting standards in Croatia for composing financial statements.

The tax base shall be the profit determined pursuant to the accounting regulations as the difference between revenues and expenditures before the profit tax assessment, increased and reduced in accordance with the discrepancies of Profit Tax Act (Article 5). According to that discrepancies determined to the accounting regulations can be divided into two groups:

1. permanently non-recognised expenditures/revenues (permanent differences)
2. temporarily non-recognised expenditures/revenues (temporary differences)

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3 Big entrepreneur is:

- ✓ Everyone who exceeds 2 of 3 criteria: revenue higher than HRK 216 million, total assets higher than HRK 108 million, number of employees greater than 250
- ✓ All financial institutions
- ✓ All who are composing consolidated financial statements according to IFRS
- ✓ All others within powers and competencies of the financial sector supervisory authorities

4 Financial Reporting Standards Board is a professional body of nine members who are appointed by government on minister of finance proposal. Members mandate is 5 years, and a member can be citizen of Croatia who has a degree, adequate professional knowledge and experience in finance, accounting and audit.

5 This solution is the result of Boards decision and it is based on last standards that were published in Official Gazette and which use, according to old Act, was obligatory for all entrepreneurs.

6 EU requirements emphasised in this negotiations refers on including 4 and 7 of EU Directives into legislation on financial reporting in those subjects that are unlisted on stock exchange or do not compose consolidated financial statements.

Permanent discrepancies between accounting profit and the tax base in revenue most frequently emerge in inclusion into the revenue of a company of the amounts which were already taxed, such as dividends and shares in profit. Each taxpayer has to provide in his accounting the necessary data on expenditures and revenue which have a characteristic of permanent discrepancies.

Permanent discrepancies in expenditures emerge because the amounts of expenditures reported in profit and loss statement for tax purposes are **permanently tax non-deductible expenditures.** In the procedure of determining the profit tax base the amounts of permanently tax non-deductible expenditures increase the accounting profit. The effect of tax non-deductible expenditures is also evident in the higher rate of the share of profit tax in accounting profits in comparison with the prescribed profit tax rate. Permanently tax non-deductible expenditures include:

- ✓ 70% of representation costs
- ✓ 30% costs incurred in relation to own of rented motor vehicles and other means of personal transportation of executives, managers, and other employed persons, if salary is not calculated on the basis of the use, except for insurance and interest costs
- ✓ gift expenditures amounting to more than 2% of earned revenue in the previous year,
- ✓ disguised payment of profit,
- ✓ costs of forced tax collection or other expenses,
- ✓ costs related to private life of shareholders and members of the company,
- ✓ penalties pronounced by a competent body,
- ✓ default interest between related parties,
- ✓ interest calculated by related parties above the level determined by the minister of finance,
- ✓ amortisation of cars and other vehicles for personal transportation above HRK 400.000 (approximately EUR 54.000),
- ✓ all other expenditures not directly related to making profit.

Tax basis before temporary differences is the amount of the profit determined pursuant to the accounting regulations corrected with the above stated revenues and expenditures, which have characteristic of permanently non-recognised revenues/expenditures. When this amount, tax basis before temporary differences, is corrected with temporary differences and decreased for tax relief, exemptions and incentives tax basis is derived. Calculated tax basis is defined as basis for the calculation of profit tax, which amounts 20% of tax basis.

In tax regulations in Croatia "temporary differences which result in tax impacts reported in liabilities as *deferred payment of profit tax* are not allowed. This arises from the provisions which specify that only the amounts of expenditures reported in accounting as operating expenditures may be recognized as expenditures for tax purposes. In revenue those are the provisions according to which all amounts of revenue reported in accounting as operational revenue are considered as revenue for tax purposes" (Spajic, 2006). Possible temporary differences in Croatia are shown in following table:

Table 1. Possible temporary differences in Croatia

Expenditure	Tax recognised
expenditures incurred by decrease of raw material reserves, finished products, and commercial goods	for this type of expenditures it is stipulated that they are tax deductible expenditures in the period in which the stocks are sold, destroyed, or used otherwise
Impairment of shares, business shares and other financial assets (non-realized losses)	for this type of expenditures is stipulated that they are tax deductible expenditures in the period in which assets are sold, or in the period in which losses were incurred
Decreases in outstanding debts from buyers	-tax deductible expenditures if they are not paid up to 15 days prior to the submission of tax return and if 120 days have elapsed from the maturity date until December 31; -expenditure is tax deductible only if reported in accounting -tax non-deductible expenditure are decreases of other outstanding debts from buyers if they are not actionable

Expenditure	Tax recognised
Provisions	-Based on law or other regulations and provisions based on contracts -Provisions in banks for potential losses, but no more then it was set by Croatian National Bank (central bank) -provision in insurance companies that are in relations with and obligatory by insurance law
Deprecation/amortisation	If calculated deprecation/amortisation in accounting is higher than calculated by The Profit Tax Act (see below)

Source: Profit Tax Act

For the taxation purposes, that is, for the purpose of determining the highest annual tax allowable amortisation expenditure Profit Tax Act regulated:

- ✓ amortising amount is equal to purchase cost (meaning there is no need to make adjustments for estimated residual regardless to its significance)
- ✓ amortization is calculated by linear method
- ✓ individual amortization calculation – no group calculation
- ✓ highest annual amortisation rates – shown in following table.

Table 2. Annual depreciation rates as of January 1st, 2005

Asset	Years	Rate
buildings and ships of over 1,000 GRT	20	5%
basic herd and personal cars	5	20%
intangible assets, equipment, vehicles (except personal cars) and machinery	4	25%
computers, computer hardware and software, mobile telephones and computer network accessories	2	50%
other non-mentioned assets	10	10%.

Source: Profit Tax Act

Previous table is showing amortization rates regulated by the Corporate Income Tax Act. However, the same Act allows the annual depreciation rates to be doubled. It is important to have in mind if one uses doubled amortization rates for taxation purposes the same must be used for accounting purposes.

From the above stated it can be concluded that «by very high annual amortisation rates the Government enables deferring payments of profit tax» (Spajic, 2006), but in same the specific of tax regulation is that it makes deferring the payment of profit tax conditional on deferring recognition of profit.

There was similar situation in the period from 2001 to 2004, when tax legislation, along with high amortization rates allowed on a one-time basis partial or full amortization of newly bought long term assets. Use of this instrument of deferring payments of profit tax was also conditioned with deferring recognition of profit. Possibilities of use of this instrument are shown in following table:

Table 3. Amortization expenditures, partial or full amortization in period from 2001 to 2004 in 000 HRK

Year	Expenditure amount		
	Amortization	Accelerated amortization	Partial or full amortization
1	2	3	4
2001.	16.084.069	2.255.945	3.103.909
2002.	16.423.530	2.422.944	3.188.018
2003.	18.000.532	2.583.986	4.728.645
2004.	19.832.088	2.548.027	6.381.530
Total	**70.340.219**	**9.810.902**	**17.402.102**

Source: MFIN, Tax Department – head office, GZAOP

Previous table is based on the information from Ministry of Finance Tax Department and is showing annual amortization amounts for each year of illustrated four-year period. In the second column amortization is calculated with the amortization rates that are regulated by Profit Tax Act or with even lower rates than those regulated[7]. Third column is showing amortization expenditures that are recognized for the tax purposes, and they have been calculated using doubled amortization rates. Finally, fourth column is showing expenditures of partial of full amortization of newly bought fixed assets.

Shown table indicates that Croatian taxpayers use depreciation/amortisation to defer tax intensively. Column 3 and 4 are result only of tax deferring. This also relates to part of column 2 because basic depreciation/amortization rates for tax purpose are higher then

[7] As already stated, if the amortization calculated according to accounting regulations is lower than the Profit Tax Act regulated highest annual amortization, lower amortization will be recognized for the tax purposes

objective one, and fact that residual value isn't take in computing of depreciation/amortization. Still, it is impossible to determine which part of amount in column 2 is result of tax deferring because for this it is necessary to have data about objective depreciation/amortization in each year of shown period.

Because financial effects of tax deferring, especially in years when was possible to use full depreciation/amortization of new long term assets, there is problem of unrealistic presenting of financial statements. In other words, there are hidden temporary differences.

We can conclude that Croatian taxpayers are possible to split in two groups: one that for financial reporting use IFRS and other that use IAS 2000 for preparation of financial statements that are base for tax base computing. Other words, usage of different set of methods (standards) for financial reporting results with different profit that is starting amount in determining tax base.

Based on experience in using of IAS from 1993 it is possible to say that in Croatia tax regulation have important role in financial reporting. This is result of:

- Historical links with continental (German) approach where tax dominates;
- Deferring the payment of profit tax is conditional with deferring recognition of profit which results with hidden temporary differences.

Domination of tax regulation is little bit lower in companies that are obligate conduct audit of financial statements because auditors are much more concerned with right application of accounting standards.[8] But in time when full depreciation/ amortization were allowed by tax regulation, between 2001 and 2005, respectable number of these companies also has used possibilities of tax deferring. Condition set by tax regulation was that full depreciation/amortization must also be used in financial statements. Range of use of this possibility in companies which financial statements are audited is witnessed by number of modified audit report (emphasis of matter) referring to this.

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[8] Croatian Audit law proscribes using of International Standards on Auditing (ISA).

Situation with in other companies (that aren't obligate to have audit of financial statements)[9] is different. In this companies influence of tax regulation is higher and much more important. This is result of fact that usage of accounting standards in these companies isn't supervised and usage of tax regulation is supervised by Ministry of finance – Tax department. In goal of simplifying reporting this companies use tax regulation in measurement of financial statement elements because on this way they can eliminate differences between financial statements and profit tax return. Result of this is existence of hidden temporary differences.

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[9] According to Audit Law all PLC and other companies that have revenues over HRK 30 million, and all financial institutions are obligate to have audit of financial statement. Audit is also required for all consolidated financial statements.

3. Financial Reporting and Determining Profit Tax Basis in European Union

Financial reporting in EU is determined with more criteria, and the most important ones are listing on the stock exchange and composing consolidated financial statements. If the company is either listed on the stock exchange or is composing consolidated financial statements, the company is obliged to use IAS/IFRS. In contrary it uses Directives (primarily Directive 4 and 7), e.g. its national standards. In other words, all other companies have to use their national standards of financial reporting and national profit tax legislation. Differences arising from the above stated, as a result in different relationship between financial reporting and profit tax.

The variations in the connections between tax and financial reporting have been discussed by a number of authors (e.g. Hoogendoorn, 1996; Lamb et al., 1998). Hoogendoorn (1996) classified a number of important European countries according to the strength of the tax link in the financial statements as follows (Aisbitt, 2002):

- Accounting and taxation are dependent and this is not expected to change. There is no or hardly any regulation regarding accounting for deferred taxation, and as a result several alternatives are allowed. In practice, both individual and group accounts are normally influenced by taxation. Countries belonging to this group are Belgium and Italy.
- Accounting and taxation are dependent and this is not expected to change. There is some regulation regarding accounting for deferred taxation. Taxation does not normally influence group accounts. France belongs to this group, as does Germany; although Germany also has the characteristics of group 1 (very limited regulation).
- Accounting and taxation are still dependent, but there is a clear development towards an independence structure. There is no strict regulation accounting for deferred taxation. Countries belonging to this group are Finland and Sweden.
- Accounting and taxation are formally independent, but in practice there is still a tight link. There is no strict regulation regarding accounting for deferred taxation. Countries belonging to this group are the Czech Republic and Poland. Accounting and taxation are independent. Regulation regarding deferred taxation allows several alternatives. Denmark belongs to this group.

- Accounting and taxation are independent. There is a specific regulation regarding accounting for deferred taxation, of which the main characteristic is the required use of partial tax allocation. Countries belonging to this group are Ireland and the UK.
- Accounting and taxation are independent. There is a specific regulation regarding accounting for deferred taxation that is very similar to IASC E49, characterised by full recognition, application of the liability method, deferred taxes on revaluation, and the recognition of deferred tax assets. Countries belonging to this group are The Netherlands and Norway.

In a number of other continental European countries, tax regulations were historically more detailed than accounting regulations. This situation allowed tax to dominate (Aisbitt, 2002). As a result of this heritage is fewer temporarily differences in financial statements. However, there is a possibility of hidden temporarily differences as a result of use of tax principles while composing financial statements for general use.

At the same time as continental European countries have been seeking to increase the distance between tax and financial reporting. The result of this system is two sets of financial statements, one for general use and one for taxation purposes, and also greater number of temporarily differences.

Latest research (e.g. Gielen, 2006) on relationship between Financial and Tax reporting are done in the contexts of IFRS adoption. Following table is pointing out the harmonization and reliance of tax and annual financial statements. It illustrates tax basis and result of IFRS use on tax basis in selected EU countries.

Table 4. The relationship between Financial and Tax Reporting and the possible Effects of the Utilization of IFRS on that relationship

Country	Relationship between Financial and Tax Reporting	Tax basis	Effects of the Utilization of IFRS on that relationship
Belgium	Tax rules follow accounting principles in Belgium allowing certain adjustments between the “financial” and “taxable” profit	Annual accounts prepared in compliance with Belgian accounting standards	Limited by not currently permitting the presentation of annual accounts in compliance with IFRS
Denmark	Annual accounts are independent of tax rules in Denmark	Tax books prepared according to Danish tax rules	Limited as tax reporting is independent from financial reporting
Estonia	Unique framework as tax base is from distributions not profits	Distributions to shareholders	Limited as tax computation is assessed based on the distributions to

Country	Relationship between Financial and Tax Reporting	Tax basis	Effects of the Utilization of IFRS on that relationship
			shareholders
France	Tax rules follow accounting principles in France	Annual accounts prepared in compliance with French accounting standards	No direct impact as not allowable for tax reporting but as French GAAP is converging with IFRS there is an impact but it is measured and controllable
Germany	Accounting principles follow tax rules in Germany	Annual accounts prepared in compliance with German accounting standards	Limited by allowing IFRS for informational purposes only
Luxemburg	Accounting principles follow tax rules in Luxembourg Tax profit is similar to accounting profit allowing for certain adjustments between the “financial” and “taxable” profit	Annual prepared in compliance with Luxembourg accounting standards	Limited by requiring a reconciliation back to tax reporting requirements
Poland	Annual accounts are independent of tax rules in Poland. A reconciliation between taxable profit and financial profit is a mandatory note to the annual accounts	Tax books prepared according to Polish tax rules	Limited as tax reporting is independent from financial reporting
Netherlands	Annual accounts are independent of tax rules in the Netherlands	Tax books prepared according to Dutch tax rules	Limited as tax reporting is independent from financial reporting

Source: Gielen, F.: IFRS and Taxation, World Bank, presentation at REPARIS – World Bank Conference held in Vienna, 15th and 15th March, 2006

Comparison of Croatian tax system and EU member countries tax systems is illustrated in the following table. The table shows profit tax rates in selected countries.

Table 5. Profit Tax rates in EU member countries

Country	Profit Tax rates
Austria	34
Belgium	33
Cyprus	10, 25
Czech Republic	31
Denmark	30
Estonia	≈ 35.14
Finland	29
France	33.33
Greece	35
Ireland	12.5

Country	Profit Tax rates
Italy	34
Latvia	15
Lithuania	15
Luxemburg	22
Hungary	18
Malta	35
Netherlands	34.5
Germany	25
Poland	27
Portugal	30
Slovakia	25
Slovenia	25
Spain	35
Sweden	28
UK	0,23.75,19,32.75,30

Source: IBFD 2004, European tax handbook 2004. Amsterdam: International Bureau of Fiscal Documentation

From the previous table we can conclude that there is a significant dispersion in profit tax rates in the EU member countries. Profit tax rates vary from 10% to 35.14%.

The second important information for the comparison of Croatian tax system and EU member countries tax systems is non-taxable revenues, e.g. revenues that were already taxed.

Table 6. Structure of non-taxable revenues in EU member countries

Country	Dividends	Capital gains	Capital increase made by company owners
Austria	Yes (domestic and foreign)	No	Yes
Belgium	Yes (domestic)	Yes	No
Cyprus	Yes	No	No
Czech Republic	/	/	/
Denmark			
Estonia	/	/	/
Finland	No	No	Yes

Country	Dividends	Capital gains	Capital increase made by company owners
France	Yes (related parties)	No	No
Greece	Yes (domestic)	Yes	No
Ireland	Yes (domestic)	No	No
Italy	No	No	No
Latvia	Yes	No	No
Luxemburg	Yes	Yes	No
Hungary	Yes	No	No
Malta	/	/	/
Netherlands	Yes (domestic and foreign)	Yes	No
Germany	Yes	Yes	No
Poland	No	No	No
Portugal	Yes (related parties)	No	No
Slovakia	No	No	No
Slovenia	Yes	No	No
Spain	Yes	No	No
Sweden	Yes (related parties)	No	Yes, partially
UK	Yes (related parties)	No	No

Source: IBFD 2004, European tax handbook 2004. Amsterdam: International Bureau of Fiscal Documentation

It is clear from the previous table that a dividend in the EU is commonly non-profit taxable revenue. However, it is opposite with capital gains and capital increases made by owners.

For the complete conclusions on taxation in EU member countries it is necessary to look at tax non-deductible expenditures.

Table 7. Structure of commonly tax non-recognised expenditures in EU member countries

Country	Representation	Donations	Penalties
Austria	Yes	No	No
Belgium	Yes	No	Yes
Cyprus	Yes	Yes	Yes
Czech Republic	Yes	/	/
Denmark			
Estonia	/	/	/
Finland	Yes	No	No
France	Yes	No	No

Country	Representation	Donations	Penalties
Greece	No	No	Yes
Ireland	Yes	No	No
Italy	Yes	No	No
Latvia	Yes	No	Yes
Luxemburg	No	No	Yes
Hungary	No	No	Yes
Malta	/	/	/
Netherlands	Yes	No	No
Germany	No	Yes	No
Poland	No	No	Yes
Portugal	No	No	No
Slovakia	Yes	No	Yes
Slovenia	Yes	Yes	No
Spain	No	No	Yes
Sweden	Yes	No	No
UK	Yes	No	No

Source: IBFD 2004, European tax handbook 2004. Amsterdam: International Bureau of Fiscal Documentation

In this table we can notice that there is rather high harmonization among EU member countries concerning the treatment of representation expenditures. On the other hand, the treatment of penalty expenditures among EU member countries is less harmonized.

Table 8. Structure of regulated highest tax allowed amortization rates with use of linear method in the EU member countries

Country	Buildings	Plant and equipment	Intangible assets	Cars
Austria	2%,2.5% or 3%	3%	6.66%	12.5%
Belgium	3% or 5%	10% or 33.33%	33.33% or 20%	/
Cyprus	/	/	/	/
Czech Republic	5%	8%	15%	25%
Denmark	5%	25%	14%	/
Estonia	/	/	/	/
Finland	7%	30%	10%	/
France	/	/	/	/
Greece	12%	/	20%	/
Ireland	4%	20%	/	20%
Italy	7%	25%	10%	50%

Country	Buildings	Plant and equipment	Intangible assets	Cars
Latvia	10%	40%	10%	20%
Luxemburg	3% or 5%	20%	10%	25%
Hungary	6%	14.5%	20%	20%
Malta	/	15%	/	20%
Netherlands	/	/	/	/
Germany	3%	12.5%	6%	16%
Poland	4.5%	20%	50%	20%
Portugal	5%	12.5%	/	25%
Slovakia	3.33%	16.66%	20%	12%
Slovenia	5%	25%	10%	50%
Spain	3%	12%	20%	16%
Sweden	%	/	/	/
UK	/	/	/	/

Source: IBFD 2004, European tax handbook 2004. Amsterdam: International Bureau of Fiscal Documentation

Information on tax allowed highest amortization rates among EU member countries is pointing out on great rate differences. That means existence of different goals which are set through profit taxation in EU member countries.

4. Conclusion

Goals and efforts of EU about harmonisation or even standardization of tax system are hardly achieve, as like it was shown in previous parts of this work, and there is still lot of differences that is necessary to adjust. In this process one step is harmonisation of accounting, especially harmonisation of financial reporting. In that area EU is decide that listed companies that present consolidated financial statements must use IFRS (*International Financial Reporting Standards*). At the same time, regulation of financial reporting of other companies is leave to member countries but it must be compatible with EU Directives (especially Directive 4 and 7).

Situation in Croatia isn't different than in some member countries (like Germany). This means that in order to join EU, Croatia need to adjust profit tax system and financial reporting to requirements of EU. First steps are done and refers to adjustment of financial reporting regulation. Full adjustment in financial reporting will be achieved when we adopt financial reporting standards for companies that aren't obligate to use IFRS. In the mean time

tax regulations are much more detailed then accounting regulations and SME's are rather using tax regulations when they are preparing financial statements. So, we can say that tax regulations are dominating over accounting regulations.

Main problem is still harmonisation of profit tax system. This is not just problem for Croatia to achieve harmonisation with EU requirements, but also this is problem to EU itself to achieve harmonisation between member countries. There can’t be just one tax system that could apply on every country but there could be only some guidelines regarding rates, taxable income and transactions and maybe on double taxation treaties.

In all stated we can confirm main hypothesis that in Croatia tax legislation dominate over accounting legislation, especially in SME’s.

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