CORPORATE INCOME TAXATION IN THE CROATIAN HOTEL INDUSTRY IN RELATION TO THE MEDITERRANEAN COUNTRIES OF EUROPE

Scientific paper

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Abstract
Purpose – Taxes directly affect business activities of entities in tourism in Mediterranean countries of Europe. This is reflected in service prices, and therefore in the offer and demand for hotel management services. The aim of this paper is to present which Mediterranean countries of Europe carry the largest tax burden with regard to corporate income tax.
Design – Three main areas are discussed, namely: corporate income taxation in the hotel industry, tax revenues of Mediterranean countries of Europe and Croatian corporate income tax distribution and tourist destinations.
Methodology - The paper provides a comparative analysis of corporate income taxation of hotel industry for Mediterranean countries of Europe.
Approach – This paper examines incentives in corporate income tax in Croatian fiscal practice and corporate income taxation in the hotel industry of Mediterranean countries of Europe. This approach is regarded as a considerable contribution to further research on tax burden in the hotel industry.
Findings – The hotel industry in Mediterranean countries of Europe is affected by corporate income taxation. Higher taxation of hotel industry in Mediterranean countries of Europe decreases competitiveness of tourist destinations.
Originality – The results of this research show that Croatia′s corporate income tax rate is not as big as in other Mediterranean countries of Europe; however, its economic and financial instability makes Croatia a tourist destination unfavourable for development of hotel industry.
Keywords corporate income tax, hotel industry, Mediterranean countries of Europe, fiscal policy

INTRODUCTION

Tourism and hotel industry are major sources of income, employment and foreign currency receipts for Mediterranean countries of Europe. Several countries in the region have relied primarily on tourism to foster the level of their economic growth and development. Tourism has become a crucial export sector in the Mediterranean, responsible for the generation of jobs as well as income[1]. Tourism is a complex activity manifesting different economic and ecological issues, security of the country and development of its information and communication technologies. It contributes to raising the competitive capacity of the economy, to accelerated development and infrastructure construction.

[1] Falzon, J., ″The price competitive position of Mediterranean countries in tourism: Evidence from the Thomson brochure″ *Tourism Management,* No. 33, 2012, 1080-1092.

The role of tourism in the economy of Mediterranean countries of Europe is usually limited to the hospitality industry. It also concerns outbound and inbound travel agencies and carriers in tourism which form the leading service sector in many countries. In many Mediterranean countries of Europe tax systems for the tourism sector are characterized by exemption schemes and instruments that generate little tax revenue. Taxes are the oldest form of fiscal liability. Their role has increased throughout history and today they are the most important form of fiscal liability in most countries. Taxes are today's leading instrument of public revenue collection, thus making its financial impact, role in financing the functions of the state and impact on passive tax entities all the more pronounced and significant. One form of tax is corporate income tax. Corporate income tax is a form of tax included in tax systems in most Mediterranean countries of Europe.

The article is divided into three sections. The introduction is followed by corporate income taxation in hotel industry and its regulations and incentives within Croatian corporate income tax. The second section describes tax revenues for Mediterranean countries of Europe and the third section demonstrates the Croatian corporate income tax distribution and tourist destinations. The final section concludes and provides recommendations for Croatian hotel industry within fiscal practice.

1. CORPORATE INCOME TAXATION IN THE HOTEL INDUSTRY

Taxes are traditionally classified as direct (e.g. personal income tax, corporate income tax and other income and capital) or indirect (e.g. value added tax, excise duties and consumption taxes and other taxes on products and production). The first group of taxes allows greater redistribution as it is impractical to introduce progressivity in indirect taxes. Direct taxes tend to be greater in countries where tax redistribution objectives are more pronounced. Corporate income tax on legal entities is a fiscal form introduced to many fiscal systems of the world. It is of a newer date with regard to its creation. It evolved from personal income tax and the need to separately perceive the income of legal entities. This type of tax appears in the Croatian fiscal system in the form of corporate income tax on legal entities. In the Croatian fiscal system corporate income tax is paid by legal entities, while personal income tax is paid by craftsmen and the self-employed. Corporate income tax on legal entities emerged from the need for another separately taxed income – net income, or profit remaining for self-financing of corporations and not being shared with owners of capital for taxation of income of private entities[2]. Hotel companies in Croatia are subjected to this type of tax. Revenues from this tax today serve to finance the budget of the Republic of Croatia while in the past they partly also served to finance budgets of local governments.

[2] Roller, D., *Fiskalni sustavi i oporezivanje poduzeća,* RRIFplus, Zagreb, 2009.

According to Jensen and Wanhill[3] tax payments by the tourist industry should be made in accordance with the following traditional economic guidelines:

1. Effectiveness – taxes should be simple to administer, so as to minimize the resource cost involved in assessing, collecting and paying them. This is frequently one of the dominant concerns for tax administrators, although typically the emphasis is on the costs incurred by tax collectors and tends to ignore those incurred by firms and consumers who pay taxes.
2. Equitable – this is the natural line of thought for the ordinary taxpayer and can be translated into the fair and even-handed treatment of travel and tourism with respect to other sectors of the economy.
3. Efficient – this is the point of departure for the economic theory of optimal taxation, which demands a system that minimizes the economic impact, termed ″excess burden″, for any given tax revenue or level of public expenditure. It implies the development of tax policies that have a minimal effect on the demand for travel and tourism, unless specifically imposed for the purpose of regulating tourist flows to, say, environmentally sensitive areas.

Taxation of the hotel industry may be disadvantageous. The application of discriminatory or inequitable taxes may distort the competitive position of the sector, both against other industries and across rival tourist destinations.

1.1. Functions of corporate income tax

According to Gammie et al.[4] the case for imposing a corporate income tax is a controversial one. It is often based on the perception that hotel companies ought to pay their fair share of tax. From an economic point of view, three rationales are generally given for corporate income tax: [5]

1. Corporate income tax is a withholding tax at source for some forms of capital income that serves as a backstop for personal income tax
2. Corporate income tax is a charge for profits received from public goods and services provided by the government
3. Corporate income tax is a tax on rents realised from non-reproducible factors of production

The most important rationale for levying corporate income tax is that it serves as a withholding tax for personal income tax. It is often thought of as a tax on owners of capital. The owners of capital could defer taxation of capital income using tax-free companies which retain and reinvest profits. For that reason companies pay a dividend to shareholders as taxable income. Corporate income tax should generally follow tax principles similar to those applied to personal income tax and there should be some form of integration between corporate and personal income tax[6].

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[3] Jensen, T.C., Wanhill, S.., ″Tourism′s taxing times: value added tax in Europe and Denmark″, *Tourism Management,* No. 23, 2002, 67-79.
[4] Gammie et.al. ″Achieving a Common Consolidated Corporate Tax Base in the EU″, Report of a CEPS Task Force, Brussels, 2005.
[5] Mintz, J., ″The Corporation Tax: A Survey″, *Fiscal Studies,* Vol. 16, No. 4, 1995, 23-68.
[6] Ibid., 28.

The second rationale is that a corporate income tax may act as a charge for public goods provided by the government and consumed by the company. Thus, corporate income tax would have the function of a price for public goods, thereby ensuring an efficient allocation of resources between public and private sectors. According to this, it would be necessary to levy corporation tax on a base that is correlated to the service of goods provided by the government that benefits the corporation[7].

The third rationale for corporate income tax relates to the desirability of taxing pure profits or economic rents. At an international level, corporate income tax on economic rents may not be completely neutral since some economic decisions may be affected. For instance, a high source-based tax on economic rents may induce a company to shift location to a lower-tax jurisdiction[8].

1.2. Regulations and incentives within Croatian corporate income tax

Within the framework of corporate income tax, each Mediterranean country of Europe has its own regulations for reducing the corporate income tax base which are also applied to the hotel industry. In Croatia these regulations are the following: Corporate Income Tax Act[9] and Act on Investment Promotion and Improving Investment Climate. According to the Croatian Corporate Income Tax Act the tax base within the framework of corporate income tax can be reduced for[10]:

1. Revenues from dividend and corporate income (profit) sharing;
2. Revenues from value adjustment of shares and stakes (unrealised gains), if these were included in the taxable base;
3. Revenues from collected written-off claims that were included in the taxable base in previous tax periods, but not excluded from the taxable base as recognised expenditures;
4. The expenditures from previous periods which were included in the taxable base;
5. The amount of depreciation not recognized in the previous tax periods, up to the prescribed amount;
6. The amount of decreasing of the taxable base in respect of change in the method of tax base assessment (an income taxable person who becomes a corporate income taxable person);
7. State support for education and further training;
8. State support for research and development programmes;
9. Reinvested corporate income (profit) other than that earned in banking or financial non-banking sector. Reinvested profit means the profit from the tax period during which share capital is increased according to special regulations and for the purpose of investment and development.

[7] Ibid.
[8] Gammie et.al., op.cit., 21.
[9] Ministry of Finance – Tax Administration, Croatia, Corporate Income Tax Act, Official Gazette of the Republic of Croatia, No. 148/13.
[10] Ministry of Finance – Tax Administration, The Croatian Tax System, Institute of Public Finance, Zagreb, 2012.

Hotel companies in Croatian fiscal practice can use fiscal aid as an incentive for investment. In order to stimulate economic growth and development of hotel and other industries, entrepreneurs are given the possibility to use fiscal aid in the form of tax relief upon determining the corporate income tax base. The Act on Investment Promotion and Improving the Investment Climate[11] enables entrepreneurs who have to pay corporate income tax to use incentive measures. These are available for entrepreneurs registered in the Republic of Croatia who have an investment in fixed assets in the minimum value of EUR 50,000 and who have created at least 3 new jobs for micro-entrepreneurs, and those whose investment is EUR 150,000 minimum and who have created at least 5 new jobs for small, medium-sized and large entrepreneurs. According to the Act, incentive measures include incentives for micro-enterprises, tax incentives, customs preferences, incentives for eligible costs of new jobs linked to the investment project, incentives for eligible costs of training linked to the investment project, incentive measures for development and innovation activities and business support activities and high value added services, incentive measures for capital costs of the investment project and labour-intensive investment projects. Tax incentives are divided into three categories according to the amount of investment, number of jobs and the tax rate:

1. For investments in the amount up to EUR 1 million, for the beneficiary of incentive measures, the corporate income tax rate will be reduced by 50% of the statutory corporate income tax for a period of 10 years from the year of the start of the investment, provided at least five new jobs linked to the investment are created.
2. For investments in the amount from EUR 1 million to EUR 3 million, for the beneficiary of incentive measures, the corporate income tax rate will be by 75% of the statutory corporate income tax for a period of 10 years from the year of the start of the investment, provided at least 10 new jobs linked to the investment are created.
3. For investments in the amount exceeding EUR 3 million, for the beneficiary of incentive measures, the corporate income tax rate shall be reduced by 100% of the statutory corporate income tax for a period of 10 years from the year of the start of the investment, provided at least 15 new jobs linked to the investment are created.

The minimum period for maintaining the investment project concerned is 5 years for large enterprises, and 3 years for small and medium-sized enterprises, but no less than the period of use of incentive measures under the Act[12]. Hotel companies as corporate income tax payers have to acquire a certificate of eligibility for the status of the beneficiary of incentive measures in order to use incentives and the aid. This aid can be used for up to 10 years or for a shorter period depending on the possibility to use the given amount of the grant.

[11] Ministry of Finance – Tax Administration, Croatia, Act on Investment Promotion and Improving the Investment Climate, Official Gazette of the Republic of Croatia No. 28/13.
[12] Amidžić-Peročević, K., ″Fiskalne potpore kao poticaj ulaganja u prijavi poreza na dobit za 2013. godinu″, *Računovodstvo i financije*, No. 2, 2014, 82-95.

2. TAX REVENUES OF MEDITERRANEAN COUNTRIES OF EUROPE

In 2011 the overall tax ratio, i.e. the sum of taxes and social contribution in the 27 Member States (EU-27) amounted to an equivalent of 38.8% of EU-27 GDP. There are many reasons why government tax revenue varies from year to year. In general the main reasons are changes in economic activity (affecting levels of employment, sales of goods and services, etc.) and in tax legislation (affecting tax rates, tax base, thresholds exemption, etc.) as well as changes in the GDP level. The crisis together with measures of fiscal policy adopted in the countries has a strong impact on the level and composition of tax revenue[13].

Table 1. shows the total tax revenue of Mediterranean countries of Europe as percentage of the GDP in the period from 2004 to 2012.

Table 1: **Total tax revenue of Mediterranean countries of Europe as percentage of GDP (2004-2012)**

	2004	***2005***	***2006***	***2007***	***2008***	***2009***	***2010***	***2011***	***2012***	**Average**
Cyprus	33.0	35.0	35.8	40.1	38.6	35.3	35.6	35.1	34.9	*35.9*
Greece	33.4	34.4	33.4	34.3	34.2	32.8	33.9	34.9	36.6	*34.2*
Italy	40.7	40.3	42.0	43.0	43.0	43.3	42.8	42.8	44.3	*42.5*
Malta	32.8	34.4	34.5	35.3	34.4	34.8	33.6	34.3	34.9	*34.3*
Portugal	33.8	34.9	35.6	35.9	35.9	34.5	34.8	36.2	34.9	*35.2*
Spain	35.6	36.7	37.6	38.0	33.8	31.6	33.2	32.9	33.6	*34.8*
Croatia	36.7	36.6	37.1	37.4	37.1	36.5	36.4	35.3	35.7	*36.5*

Note: Total receipts from taxes and social contributions.

Source: Eurostat, National accounts tax aggregates, 2013.

Looking at 2011 and 2012, we can note an increase in tax revenues as percentage of GDP in 2012 as opposed to 2011 in countries such as Greece (1.7%), Italy (1.5%), Malta (0.6%), Spain (0.7%) and Croatia (0.4%). This arises from the economic and financial crisis that has hit Mediterranean countries of Europe. Countries such as Cyprus (-0.2%) and Portugal (-1.3%) recorded a decline in tax revenues in 2012 as opposed to 2011.

The highest average tax revenue as percentage of GDP in Mediterranean countries of Europe in the 2004-2012 period was recorded in Italy (42.5%) and Croatia (36.5%), while the lowest was recorded in Greece (34.2%) and Malta (34.3%).

Table 2. shows the adjusted corporate income tax of Mediterranean countries of Europe as percentage of the GDP in the period from 2005 to 2011.

[13] European Commission, Taxation trends in the European Union, 2013.

Table 2: **Adjusted corporate income tax of Mediterranean countries of Europe as percentage of GDP (2005-2011)**

	2005	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	**Difference 2005 – 2011**
Cyprus	4.7	5.5	6.8	7.1	6.5	6.2	6.8	*2.1*
Greece	3.3	2.7	2.6	2.5	2.5	2.5	2.1	*-1.2*
Italy	2.3	2.9	3.3	3.1	2.5	2.4	2.3	*0.0*
Malta	3.8	4.3	6.2	6.1	6.1	6.0	5.9	*2.1*
Portugal	2.7	2.9	3.6	3.7	2.9	2.8	3.2	*0.5*
Spain	3.9	4.2	4.8	2.9	2.3	1.9	1.9	*-2.0*

Note: In this table existing surcharges and averages of local taxes are included.

Source: European Commission, Taxation trends in the European Union, 2013.

The analysis of years 2010 and 2011 in Mediterranean countries of Europe leads to the conclusion that adjusted corporate income tax as percentage of the GDP of those countries is very diverse. Thus, countries such as Cyprus (0.6%) and Portugal (0.4%) recorded an increase in the share (%) of this tax in the GDP while countries such as Greece (0.4%), Italy (0.1%) and Malta (0.1 %) recorded a decrease in the share (%) of this tax in GDP in 2011 as opposed to 2010. Spain proves as an interesting case given that no changes occurred in the corporate income tax share in the GDP. The greatest difference in the 2005-2011 period was recorded in Spain (-2.0%) and Greece (-1.2%). Those countries saw a great decrease in the share (%) of this tax in the GDP. In Malta there was a great increase of 2.1% while in Portugal it remained unchanged.

2.1. Trends in corporate income tax rates of Mediterranean countries of Europe

According to Bratić[14] there are four fundamental features determining the character of any tax, and likewise corporate income tax:

1. Taxpayer – corporate income tax payers are entities with and without legal personality, or domestic companies, corporations, associations and other legal entities performing an activity that generates profit which obliges them to pay this tax.
2. Base – given the increased process of European integration and consequently a wider economic market that does not limit the movement of basic production factors, i.e. people, goods and capital, corporate income tax can be exercised in the home country as well as in foreign countries.
3. Relief, exemption and reductions – the corporate income tax base can be reduced through various exemptions, incentives and reliefs which are regularly aimed at promoting, or improving and enhancing, the business results of corporate income tax payers. These taxes are imposed according to various criteria, for example type of business activity, location of business activity, type of company, etc.

[14] Bratić, V., *Skrivena javna potrošnja, Porezni izdaci: potreba ili udvaranje biračima?,* Institut za javne financije, Zagreb, 2011.

4. Rate – the amount of tax calculated in relation to the tax base and usually the most variable element of the tax system. Corporate income tax rates are proportional because taxation of corporations is not done according to the principle of economic power.

The tax rate level either stimulates or reduces the level of economic activity and development which is why rates tend to decrease or adjust over time. Lower rates stimulate investment mobility, increase the corporate income tax base and bring to the fore tax competitiveness of Mediterranean countries of Europe. Table 3. shows adjusted corporate income tax rates of Mediterranean countries of Europe in the period from 2007 to 2012.

Table 3: **Adjusted top statutory tax rate on corporate income of Mediterranean countries of Europe 2007-2012 (%)**

	2007	*2008*	*2009*	*2010*	*2011*	*2012*
Cyprus	10.0	10.0	10.0	10.0	10.0	10.0
Greece	25.0	35.0	35.0	24.0	20.0	20.0
Italy	37.3	31.4	31.4	31.4	31.4	31.4
Malta	35.0	35.0	35.0	35.0	35.0	35.0
Portugal	26.5	26.5	26.5	29.0	29.0	31.5
Spain	32.5	30.0	30.0	30.0	30.0	30.0
Croatia	20.0	20.0	20.0	20.0	20.0	20.0

Note: In this table existing surcharges and averages of local taxes are included.
Cyprus: In 2003 and 2004 the rate includes an additional 5% surcharge on companies with income exceeding EUR 1.7 million.
Greece: The rate includes a special contribution introduced in 2009 (2008 income) on companies with net income above EUR 5 million. The contribution is levied at progressive rates, with the marginal rate reaching 10%. In 2010 (2009 income) the contribution applies to income above EUR 100 000, top rate being 10% (income above EUR 5 million).
Italy: As from 1998 the rates for Italy include IRAP (rate 3.90%), a local tax levied on a tax base broader than corporate income. The rate may vary up to 0.92 pp depending on location.
Portugal: As from 2007 the rate for Portugal includes the maximum 1.5% rate of a municipal surcharge. As from 1 January 2012 the State tax is 3% on taxable profits between EUR 1.5 and 10 million and 5% on profits exceeding EUR 10 million.

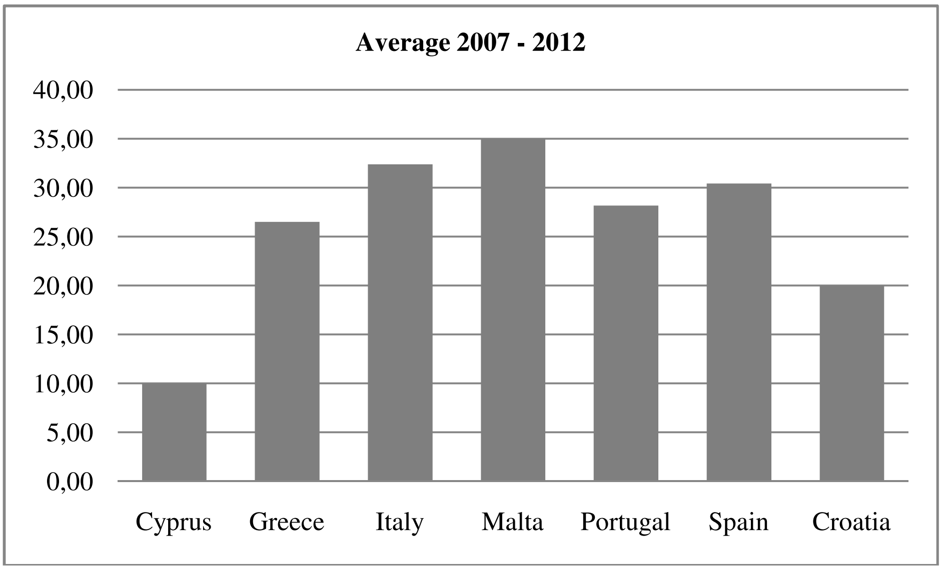
Source: European Commission, Taxation trends in the European Union, 2013; Ministry of Finance of the Republic of Croatia.

Table 3. shows that in 2012 Malta (35%) and Portugal (31.5%) had the highest adjusted corporate income tax rate, Cyprus (10%) had the lowest rate while Greece and Croatia were tied with a rate of 20%. Looking at hotel companies, we can conclude that the greatest tax burden in terms of corporate income tax is imposed on those in Malta, while the smallest tax burden is imposed on those in Cyprus. Given its very low corporate income tax, Cyprus has become an extremely favourable tourist destination suited for development of hotel companies. Likewise, Greece and Croatia do not have a

high corporate income tax rate; however, their economic and financial instabilities make them unfavourable for development of hotel companies.

Figure 1. shows the average adjusted corporate income tax rate of Mediterranean countries of Europe in the period from 2007 to 2012.

Figure 1: **Average adjusted corporate income tax rate of Mediterranean countries of Europe 2007-2012 (%)**



Source: author's calculations.

Looking at the average corporate income tax rate of Mediterranean countries of Europe in the period from 2007 to 2012, Malta (35%), followed by Italy (32.38%), had the highest average corporate income tax rate while Cyprus (10%) had the lowest. A country with a low average corporate income tax rate such as Cyprus represents to foreign investors an extremely favourable investment climate for investments in hotel companies. Such a climate does not oblige foreign investors to pay high corporate income taxes as for example in Malta.

Corporate income tax rates in EU-27 have been forcefully cut since the mid-nineties, from a 35.3% average to 23.5% now. The economic and financial crisis, however, slowed down this trend and stopped it. That was an introduction to a series of surcharges in several countries which led to a stabilisation in the European Union average in 2012 and 2013, and even a slight increase in the euro area.

3. . CROATIAN CORPORATE INCOME TAX DISTRIBUTION AND TOURIST DESTINATIONS

The hotel industry is a complex matter in the economic and social development of a country. Corporate income tax is determined for the business year which is also usually the calendar year. It is determined in relation to the income realized by a hotel company in the above period. The final calculation of the tax is performed on the basis of a taxpayer's tax return delivered to the tax administration by 30 April for the previous business year. Corporate income tax revenue is mostly a part of the central government budget. In general, corporate income tax is not a tax that is directly distributed among local governments since its base is often centred in large local units. It also seems unstable and the collected corporate income tax revenue is often easily poured into more prosperous local units. Therefore, dissatisfaction is often expressed by hotel companies in tourist destinations with increased requirements regarding investments in local infrastructure. It can thus be concluded that corporate income tax does not generate enough financial resources for financing local governments, and it is of little significance in the development of hotel companies in certain tourist destinations. The more the hotel industry is encompassed by the fiscal system (meaning higher taxes), the less it is competitive compared to local tourist destinations[15]. According to Bratić et al.[16] the activity for improvement of the position of hotel industry should primarily be directed at conceiving and decreasing this tax form in the financial burden.

Pigey believes that there are several possibilities for improving corporate income tax with regard to financing local governments[17]. The first possibility would be the distribution of the entire common amount of corporate income tax among local governments and directing it where the economic activity actually takes place. The second possibility would be to keep the corporate income tax as a common tax, but not on the basis of the place of payment. The entire local governments' share in corporate income tax could be one of the sources of financing as well as part of the fund for general purposes. Within this approach, resources would be allocated to all local governments in accordance with prior legally established parameters within the distribution formula. Such an approach to tax should not fall under the influence of bureaucratic manipulations or political influence. This approach could be a preferred route for the Republic of Croatia given the need to resolve the existing significant horizontal fiscal imbalance. The third possibility is very similar to the second possibility and it includes the allocation of corporate income tax per capita across the country, proportionally to the population in each city or county. The fourth possibility is to terminate the division of corporate income tax on the basis of place of payment. One option in the reform would be the recentralization of corporate income tax and

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[15] Roller, D., Hodžić, S., ″The taxation of hotel industry and research and development expenses″, in 20th Biennial International Congress *Tourism & Hospitality Industry 2010*, Proceedings, Faculty of Tourism and Hospitality Management Opatija, May 6-8, 2010, 1187-1193.
[16] Bratić, et.al. ″Tax system as a factor of tourism competitiveness: The case of Croatia″, Procedia- Social and Behavioral Sciences, Vol. 44, 2012, 250-257.
[17] Pigey, J., Zajednički porez na dobit u Hrvatskoj i cjelokupni kontekst financija lokalne samouprave, Projekt reforme lokalne samouprave, Zagreb, 2006.

compensation of local budgets with a higher corporate income tax share or with a new source of own local revenues. However, the new source of revenue option could increase the burden of taxpayers, thus also of hotel companies, and it would not necessarily ensure better allocation of revenue among local units. Moreover, a stronger decentralization of the fiscal system should be implemented as well as the allocation of a part of the revenue from value added tax realized in a tourist destination.

Based on the experiences of other countries, Croatia should evenly distribute corporate income tax revenue in order to avoid disturbances to regional development. This principle should be in accordance with income per capita, meaning resources collected from corporate income tax would be entrusted to local governments which would then distribute them to cities according to their population. A large number of local governments exhibits a low level of economic activity and cannot collect significant corporate income tax revenue. Therefore, such units would profit more from the allocation of corporate income tax revenue if an equality criteria or a criteria not based on economic activity was introduced. The increased corporate income tax revenue would enable local units to invest more in the local infrastructure, for example in hotel companies at a particular tourist destination.

CONCLUSION

Tourism is an important strategic activity of the Croatian economy. There is still a lot of untapped potential there which should be devised, while notable financial resources should be invested in order to enhance the tourist offer and produce a competitive market product. The biggest flaw of tourism in the Republic of Croatia is its seasonal nature arising from the short period of favourable climate conditions.

In order to realize competitiveness of tourism and hotel sectors, it is necessary to preserve strong and stable economic growth, continue with decentralization and fiscal changes, decrease the deficit and public debt. In accordance with the decrease in revenue it is necessary to decrease the tax burden and contributions of hotel companies and increase domestic savings and investments. Croatian tourist and hotel activities need to become the largest export activity with a tendency of permanent growth. Each tourist destination must profile itself according to economic, cultural, social and other characteristics and produce a brand for its territory.

Tourism and the hotel industry in Croatia need to create a basis for profitable business and development of hotel industry. In addition to structural problems such as insufficiently differentiated products, the hotel sector is faced with considerable fiscal burdens which obstruct the management of the hotel industry business under competitive conditions of other Mediterranean countries of Europe. The development of hotel industry in Croatia is further hindered by numerous obstacles in the institutional environment; it has slower growth rates and mainly amounts to renovation of existing hotel buildings. In addition to this measure, other measures should be related to measures for strengthening competitiveness by equalizing business conditions in respect of other Mediterranean countries of Europe, to incentive development measures for creating conditions for development in order to make tourism a generator of economic development based on a long-term sustainable concept of development, to strengthening the professional management system of tourism and hotel sectors; and they should shape programmes and projects in the field of energy efficiency for use in the hotel industry. In order to achieve all of these measures, Croatia will need to invest additional financial resources and devote more effort into increasing its competitiveness compared to other Mediterranean countries of Europe.

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