Investment basics:

**Currency** – Croatian Kuna (HRK)

**Foreign exchange control** – The Foreign Exchange Act regulates domestic and foreign currency transactions. Legal entities, as well as domestic and foreign individuals, may open foreign currency accounts in local banks. There are no restrictions on Croatian residents opening foreign currency accounts abroad.

**Accounting principles/financial statements** – IAS/IFRS applies for large and publicly listed companies. Croatian Financial Reporting Standards (CFRS) govern the preparation and presentation of financial reports for unlisted small and medium-sized companies. Financial statements must be prepared annually.

**Principal business entities** – These are sole proprietorship, joint stock company, limited liability company, economic interest grouping, general and limited partnership, branch of a foreign corporation and representative office.

Corporate taxation:

**Residence** – An entity is resident if it is incorporated and registered in Croatia or if it is controlled and managed in Croatia. An entity also may become resident by carrying out business activities in Croatia that meet the criteria for a permanent establishment.

**Basis** – Residents are taxed on their worldwide income; nonresidents are taxed only on Croatian-source income. Foreign-source income derived by residents is subject to the same corporate tax rules as Croatian-source income.

**Taxable income** – The corporate tax base is the difference between revenue and expenses assessed in the profit and loss statement under the accounting rules, which is then adjusted for tax-specific items under the corporate tax provisions.

**Taxation of dividends** – Dividend income is not subject to corporate income tax in Croatia. However, dividends are subject to withholding tax, except for dividends paid to a resident entity (see below under “Withholding tax”).

**Capital gains** – Capital gains are included in taxable income and taxed at the standard corporate income tax rate.

**Losses** – Tax losses may be carried forward for up to five consecutive years. The carryback of losses is not permitted.

**Rate** – The standard corporate income tax rate is 18%, but taxpayers with annual income under HRK 3 million are taxed at a rate of 12%.

**Surtax** – No

**Alternative minimum tax** – No

**Foreign tax credit** – Foreign tax paid may be credited against the domestic tax liability up to the amount of Croatian tax that would have been payable on the income, provided the taxpayer can produce evidence of the amount of foreign tax paid.

**Participation exemption** – No

**Holding company regime** – No

**Incentives** – Under the Investment Promotion Act, qualifying companies may be eligible for a 50% to 100% reduction in the corporate income tax rate for a five to 10-year period, depending on the size of the enterprise, the amount of the investment and the number of new jobs created. Business activities that qualify include manufacturing, development and innovation, business support and high value-added services. The minimum amount of investment in fixed assets is EUR 50,000 with
three new jobs created for micro enterprises, and EUR 150,000 with five new jobs created for small and medium-sized enterprises (SMEs) and large enterprises. The Ministry of Economy, Entrepreneurship and Crafts has re-introduced a tax relief incentive for R&D activities, which allow a company that is a corporate income taxpayer in Croatia an additional decrease in its corporate income tax base for up to 200% of eligible R&D project expenditures. Cash grants for R&D&I activities also are available through calls for proposals. The funding is intended for the development of new or significantly improved products and services through a company’s own, contractual or collaborative R&D activities. Eligible expenditures include salaries, depreciation of equipment, contractual research, consumables and overhead incurred as part of an R&D&I project. Grants for investment in infrastructure and equipment is possible as part of the regional aid. The maximum grant can be up to EUR 7.5 million.

Withholding tax:

**Dividends** – Dividends paid to a nonresident (other than a private individual) are subject to a 12% withholding tax, unless the rate is reduced or an exemption applies under a tax treaty, or the dividends qualify for an exemption under the EU parent-subsidiary directive. However, dividends paid to entities in countries that are listed as noncooperative for tax purposes (i.e. tax havens) and that have not concluded a tax treaty with Croatia, will be subject to a 20% withholding tax.

**Interest** – A 15% withholding tax is levied on interest paid to a nonresident (other than a private individual), unless the rate is reduced or an exemption applies under a tax treaty or the EU interest and royalties directive. However, interest paid to entities in countries that are listed as noncooperative for tax purposes (i.e. tax havens) and that have not concluded a tax treaty with Croatia, will be subject to a 20% withholding tax.

**Royalties** – A 15% withholding tax is levied on royalties paid to a nonresident (other than a private individual), unless the rate is reduced or an exemption applies under a tax treaty or the EU interest and royalties directive. However, royalties paid to entities in countries that are listed as noncooperative for tax purposes (i.e. tax havens) and that have not concluded a tax treaty with Croatia, will be subject to a 20% withholding tax.

**Technical service fees** – A 15% withholding tax is levied on technical service fees (for market research, audit, tax consulting or business consulting) paid to a nonresident, unless the rate is reduced or an exemption applies under a tax treaty. However, fees paid to entities in countries that are listed as noncooperative for tax purposes (i.e. tax havens) and that have not concluded a tax treaty with Croatia, will be subject to a 20% withholding tax.

**Branch remittance tax** – No

**Other** - Fees paid to foreign enterprises for performance of nonresident artists, entertainers and sportspersons will be subject to a 15% withholding tax. There is no obligation to calculate personal income tax and social security contributions for the individual performer if the withholding tax is paid.

Other taxes on corporations:

**Capital duty** – No

**Payroll tax** – No

**Real property tax** – See below under "Transfer tax."

**Social security** – Social security contributions consist of pension contributions (borne by the employee, but withheld by the employer) at a rate of 20% of gross salary, and a health and employment contribution (borne and paid by the employer) at a rate of 17.2% of gross salary. Social security contributions for other income are payable at reduced rates (10% pension insurance, 7.5% health insurance).

**Stamp duty** – No

**Transfer tax** – Transfers of real estate not subject to VAT are liable to a 3% transfer tax (reduced from 4% as from 1 January 2019). The tax base for real estate transfer tax purposes is the market value of the property.

**Other** – Forest contributions, tourism contributions and cultural monument contributions may apply.

**Anti-avoidance rules:**

**Transfer pricing** – Transfer pricing rules apply to domestic and cross-border transactions between related parties, as well as to domestic transactions if one of the parties is operating at a loss, has tax losses carried forward, pays tax at lower rate or qualifies for tax relief. Transfer pricing methodologies are prescribed in accordance with the OECD transfer pricing guidelines. Transfer pricing studies and benchmark analyses are required. Country-by-country reporting is required for certain multinational groups for reporting periods starting on or after 1 January 2016.

Advance pricing agreements are available. Benchmarking analyses of interest rates for intercompany loans are available under certain conditions. Taxpayers may choose a safe haven interest rate of 3.96% (for 2019) or use a benchmarking analysis (but not both).

**Thin capitalization** – A portion of the interest paid on loans granted by a shareholder or related party, or
granted by a third party and guaranteed by a shareholder, is not deductible if the shareholder holds 25% or more of the shares/voting rights of the taxpayer and the value of the loan exceeds four times the value of the shareholder’s share of the taxpayer’s equity. If loans subject to the thin capitalization rules exceed the 4:1 ratio at any time, the amount of interest attributable to the excess is not deductible. The thin capitalization rules do not apply to loans granted by banks or other financial institutions, although the application of the exemption is unclear if the bank loan is guaranteed by the shareholder or another related party.

Croatia has implemented the interest deduction limitation rule in the EU Anti-Tax Avoidance Directive (ATAD) into its domestic law. Under the rules, which apply as from 1 January 2019, taxpayers may deduct net financing expenses of up to 30% of their EBITDA (although net financing expenses up to EUR 3 million may be deducted, regardless of whether the expenses involve related parties). The definition of financing expense is broad and includes interest, as well as all other expenses related to obtaining the financing, e.g. exchange rate differences, financing fees, etc. Any excess expense amount may be carried forward for up to three years (subject to the 30% EBITDA limitation). This amount may be reduced for interest determined not to be deductible under the thin capitalization or related party rules. Financial institutions and “stand alone” taxpayers that are not part of a group fall outside the scope of the interest expense deduction limitation rules.

**Controlled foreign companies** – CFC rules have been introduced as part of the implementation of the ATAD. The CFC rules attribute certain passive income of a low-taxed controlled foreign entity to its Croatian shareholders. A CFC is any legal entity or permanent establishment located in another country if more than 50% of the vote or value of the entity is held by Croatian shareholders, and if the corporate income tax paid by such entity is less than the difference between the corporate income tax that would have been paid under Croatian tax laws and the actual corporate income tax paid.

The categories of income of the CFC that may be attributed are interest or other income from financial assets, license or other intellectual property income, dividends/shares in profit, finance leasing, insurance, banking and other financial activities, and the sale and purchase of goods and services procured with related parties with little or no economic value added.

The CFC rules will not apply if a CFC carries out substantial economic activity through the engagement of staff, equipment, property and buildings, as evidenced by relevant facts and circumstances or if the income listed above makes up one-third or less of the foreign entity’s total income.

**Disclosure requirements** – See under “Transfer pricing.”

**Compliance for corporations:**

**Tax year** – The tax year is the calendar year or any 12-month period approved by the tax authorities.

**Consolidated returns** – Consolidated returns are not permitted; each company must file a separate return.

**Filing requirements** – Croatia operates a self-assessment regime. Corporate tax is payable in 12 equal monthly installments. The tax return must be filed within four months of the financial year end.

**Penalties** – Penalty interest is charged at 6.54% per year, and penalties range from HRK 2,000 to HRK 200,000. Repeat offenses of the same type result in penalties from HRK 3,000 to HRK 300,000.

**Rulings** – Rulings are available for all future planned transactions.

**Personal taxation:**

**Basis** – Residents are taxed on worldwide income; nonresidents are taxed only on Croatian-source income.

**Residence** – An individual is resident if he/she has a permanent residence or habitual abode in Croatia.

**Filing status** – There is no joint taxation; spouses are treated as separate persons for tax purposes.

**Taxable income** – The annual tax base is total income from employment, self-employment and other income, less personal allowances. Gross income is reduced by the employee’s pension contribution payments (20% of gross income).

**Capital gains** – Capital gains are subject to tax at rates ranging from 12% to 36%, depending on the nature of the transaction. Gains from the sale of tangible or intangible property are taxable at 24% if the property was owned for less than two years. Gains derived from the sale of shares are taxable at a 12% rate; however, gains from the sale of shares (or other financial assets) acquired before 1 January 2016 or owned for more than two years are exempt.

**Deductions and allowances** – Each individual is entitled to a personal allowance of HRK 3,800 per month. The deduction may be further increased for each dependent family member.

**Rates** – Rates are progressive at 24% and 36%, depending on gross income. Interest on savings accounts is taxable at a flat 12% rate.
Other taxes on individuals:

**Capital duty** – No

**Stamp duty** – No

**Capital acquisitions tax** – No

**Real property tax** – A transfer of real property by private individuals is subject to a 3% real estate transfer tax (reduced from 4% as from 1 January 2019) based on the market value of the property.

**Inheritance/estate tax** – Transfers of cash, securities or movable assets with an individual market value in excess of HRK 50,000 are subject to a 4% inheritance and gift tax, regardless of the transferor. The tax does not apply to movable property inherited or received as a gift if the transfer is subject to VAT. The taxation of inherited or donated real property is governed by the Real Estate Transfer Tax Act (3% based on market value). Transfers between immediate relatives (spouses, siblings and children) regarded as inheritances or gifts are not subject to taxation.

**Net wealth/net worth tax** – No

**Social security** – Social security contributions consist of pension contributions (borne by the employee, but withheld by the employer) at a rate of 20% of gross salary, and a health contribution (borne and paid by the employer) at a rate of 16.5% of gross salary. Social security contributions for other income are payable at reduced rates (10% pension insurance, 7.5% health insurance).

**Compliance for individuals:**

**Tax year** – Calendar year

**Filing and payment** – Only individuals who realize income from self-employment or employment income as seafarers must submit an annual tax return by the end of February following the tax year. In all other cases (e.g. regular employment income, other income) the tax authorities will perform the annual tax calculation and issue the tax assessment accordingly. Any outstanding tax liability must be paid within 15 days of receipt of the annual tax assessment.

Individuals realizing income from abroad must report such income by 31 January 2020 on a special annual form (INO-DOH form).

Income from property and property rights, capital income including dividends and capital gains, insurance income and some types of other income are considered final income, on which tax paid during the year is considered as final, and such income is not included on the annual tax return.

Capital gains must be reported by the taxpayer to the tax authorities by the end of February following the tax year (on the JOPPD form). If capital gains are realized from abroad and tax is paid abroad, the taxpayer can credit the tax paid abroad (via the annual INO-DOH form) based on the tax-paid certificate issued by the relevant authority. The deadline for filing the INO-DOH form and the tax-paid certificate is 31 January for the previous year. If the tax paid certificate cannot be obtained by 31 January, it may be filed by 30 November for the previous year.

**Penalties** – Penalty interest is charged at a rate of 6.54% per year, and penalties range from HRK 5,000 to HRK 100,000.

**Value added tax:**

**Taxable transactions** – VAT is imposed on the sale of goods, the provision of services, the EU intra-community acquisition of goods, and on imports.

**Rates** – The standard rate is 25%, with reduced rates of 13% and 5%. Certain supplies are exempt.

**Registration** – Registration for VAT purposes is mandatory where the annual value of transactions exceeds HRK 300,000. A company may register voluntarily if the threshold is not met, but voluntary registration is for a minimum period of three years. Nonresidents carrying out taxable activities in Croatia do not need to register for VAT purposes. A VAT identification number must be obtained by residents carrying out transactions within the EU.

**Filing and payment** – VAT returns, “EC sales lists” and “EC purchases lists” are due by the 20th day of the current month for the prior VAT period. Payments must be made by the end of the month following the VAT period. VAT-related penalty interest is charged at a rate of 6.54% per year, and penalties range from HRK 1,000 to HRK 500,000.


**Tax treaties:** Croatia has concluded 64 tax treaties. Croatia signed the OECD MLI on 7 June 2017.

**Tax authorities:** Croatian Tax Administration, Croatian Customs Administration.

**Contact:**

Adrian Hammer (ahammer@deloittece.com)