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 the 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:

<table>
<thead>
<tr>
<th>Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Corporate income tax rate</strong></td>
</tr>
<tr>
<td><strong>Branch tax rate</strong></td>
</tr>
<tr>
<td><strong>Capital gains tax rate</strong></td>
</tr>
</tbody>
</table>

**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. Branches are taxed in the same way as subsidiaries.
Taxable income – The corporate tax base is the difference between revenue and expenses assessed in the profit and loss statement under the accounting rules, adjusted for tax-specific items under the corporate tax provisions.

Rate – The standard corporate income tax rate is 18%, but taxpayers with annual income under HRK 7.5 million (increased from HRK 3 million as from 1 January 2020) are taxed at a rate of 12%.

Surtax – There is no surtax.

Alternative minimum tax – There is no alternative minimum tax.

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.

Foreign tax relief – 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 – There is no participation exemption.

Holding company regime – There is no holding company regime.

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 reintroduced a tax relief incentive for research and development (R&D) activities, which allows a company that is a corporate income taxpayer in Croatia an additional reduction in its corporate income tax base of up to 200% of eligible R&D project expenditure. Cash grants for research and development and innovation (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 overheads incurred as part of an R&D&I project. Grants for investment in infrastructure and equipment are possible as part of the regional aid. The maximum grant is EUR 7.5 million.

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 and payment** – 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 6.11% per annum (this rate will be valid until at least 30 June 2020), 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. The fee for a ruling ranges from HRK 5,000 to HRK 30,000, depending on the applicant’s annual revenue. Once issued, the ruling is binding on both the taxpayer and the tax authorities. Advance pricing agreements are available.

**Other** - Taxpayers may choose a safe haven interest rate of 3.42% (for 2020) or use a benchmarking analysis (but not both).

**Individual taxation:**

### Rates

<table>
<thead>
<tr>
<th>Individual income tax rate</th>
<th>Taxable income</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Up to HRK 360,000</td>
<td>24%</td>
</tr>
<tr>
<td></td>
<td>Over HRK 360,000</td>
<td>36%</td>
</tr>
</tbody>
</table>

| Capital gains tax rate     | 0%/12%–36%                   |

**Residence** – Individuals are resident if they have a permanent residence or habitual abode in Croatia.

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

**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).

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

**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 4,000 per month. The deduction may be further increased for each dependent family member.

**Foreign tax relief** – 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 (depending on the provisions of a relevant tax treaty), provided the taxpayer can produce evidence of the amount of foreign tax paid.

**Compliance for individuals:**

**Tax year** – The tax year is the calendar year.

**Filing status** – There is no joint taxation; spouses are treated as separate persons for tax purposes.
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 during tax year 2020 must report such income by 31 January 2021 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 and the tax paid outside Croatia, the taxpayer can credit the foreign tax paid (via the annual INO-DOH form) based on the certificate issued by the relevant authority. The deadline for filing the INO-DOH form and the certificate of tax paid is 31 January following the tax year. If the certificate of tax paid cannot be obtained by 31 January, it may be filed by 30 November following the tax year.

Penalties – Penalty interest is charged at a rate of 6.11% per annum (this rate will be valid until at least 30 June 2020), and penalties range from HRK 5,000 to HRK 100,000.

Rulings – Rulings are available for all future planned transactions. Individual taxpayers must pay a fee of HRK 5,000 per ruling. Once issued, the ruling is binding on both the taxpayer and the tax authorities.

Withholding tax:

<table>
<thead>
<tr>
<th>Type of payment</th>
<th>Residents Company</th>
<th>Residents Individual</th>
<th>Nonresidents Company</th>
<th>Nonresidents Individual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends</td>
<td>0%</td>
<td>12%</td>
<td>12%/20%</td>
<td>12%</td>
</tr>
<tr>
<td>Interest</td>
<td>0%</td>
<td>12%</td>
<td>15%/20%</td>
<td>12%</td>
</tr>
<tr>
<td>Royalties</td>
<td>0%</td>
<td>24%</td>
<td>15%/20%</td>
<td>24%</td>
</tr>
<tr>
<td>Fees for technical services</td>
<td>0%</td>
<td>24%</td>
<td>15%/20%</td>
<td>24%</td>
</tr>
</tbody>
</table>

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 jurisdictions for tax purposes (i.e. on the EU “blacklist”) and that have not concluded a tax treaty with Croatia are subject to a 20% withholding tax. Dividend payments to resident and nonresident individuals are taxed at a rate of 12%. Dividend payments to resident companies are not subject to 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 jurisdictions for tax purposes (i.e. on the EU blacklist) and that have not concluded a tax treaty with Croatia is subject to a 20% withholding tax. Interest payments to resident and nonresident individuals are taxed at a rate of 12%. Interest payments to resident companies are not subject to 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 jurisdictions for tax purposes (i.e. on the EU blacklist) and that have not concluded a tax treaty with Croatia are subject to a 20% withholding tax. Royalty payments to resident and nonresident individuals are taxed at a rate of 24%. Royalties paid to resident companies are not subject to withholding tax.

**Fees for technical services** – A 15% withholding tax is levied on technical service fees (for market research, audit, tax consulting, or business consulting) paid to a nonresident entity, 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 jurisdictions for tax purposes (i.e. on the EU blacklist) and that have not concluded a tax treaty with Croatia are subject to a 20% withholding tax. Technical service fee payments to resident and nonresident individuals are taxed at a rate of 24%. Technical service fee payments to resident companies are not subject to withholding tax.

**Branch remittance tax** – No

**Other** – A 15% withholding tax rate generally is levied on payments of fees for services (other than technical services) to a nonresident entity, 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 jurisdictions for tax purposes (i.e. on the EU blacklist) and that have not concluded a tax treaty with Croatia are subject to a 20% withholding tax. Payments of fees for services to resident and nonresident individuals are taxed at a rate of 24%. Payments of fees for services to resident companies are not subject to withholding tax.

Fees paid to foreign enterprises by domestic or foreign payers for the performance of nonresident artists, entertainers, and sportspersons in Croatia are 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.

**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.

Advance pricing agreements are available. Taxpayers may choose a safe haven interest rate of 3.42% (for 2020) or use a benchmarking analysis (but not both).

Benchmarking analyses of interest rates for intercompany loans are available under certain conditions.

**Interest deduction limitations** – 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.
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Croatia has implemented the interest deduction limitation rule in the EU Anti-Tax Avoidance Directive (ATAD) into its domestic law. 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 “standalone” 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 votes or value of the entity is held by Croatian shareholders, and if the corporate income tax paid by the 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 such income comprises no more than one-third of the foreign entity’s total income.

**Hybrid mismatches** – Hybrid mismatch rules have been introduced as part of the implementation of the ATAD. Hybrid mismatches are the consequence of differences in the legal characterization of payments (financial instruments) or entities that arise as a result of the interaction between the legal systems of two jurisdictions. The effect of such mismatches can be a double deduction (i.e., a deduction of the same expenses in more than one jurisdiction) or a deduction without inclusion (i.e., a deduction of the income in one state without the inclusion of the income in the tax base of the other state). The deductibility of such payments will be limited in the case of a double deduction (a deduction is allowed only in the state of source of the payment) and deduction without inclusion (a deduction will not be allowed). The hybrid mismatch rules apply as from 1 January 2020, with the exception of the reverse hybrid mismatch rules, which are effective as from 1 January 2022.

**Economic substance requirements** – For tax purposes, the facts relating to transactions should be determined based on their economic substance. In addition, if certain benefits that can be estimated are realized by a taxpayer without any legal basis, the tax authorities may compute the tax liability in accordance with a special law regulating particular types of tax. Croatian legislation does not provide specific details relating to economic substance, but substance is assessed by the tax authorities on a case-by-case basis.

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

**Exit tax** – Exit tax has been introduced as part of the implementation of the ATAD. The exit tax rules provide that a taxpayer will be subject to corporate tax on the unrealized appreciation of assets (hidden reserves). Exit tax will be paid on the difference between an asset’s market value and its value determined for tax purposes if the asset or a business is transferred and Croatia loses its ability to tax the
asset/business. The tax will apply while the asset/business is still under full control of the original owner. The same treatment applies in the case of a transfer of tax residence.

Individuals are not subject to exit tax.

**General anti-avoidance rule** – To apply the general anti-avoidance rule (GAAR), the tax authorities are required to show that tax abuse exists, based on objective circumstances. Tax abuse arises where a taxpayer carries out a transaction that allows it to avoid tax or claim a tax benefit that is contrary to the legislative intent underlying the law. The GAAR will not apply if the taxpayer can demonstrate that the transaction could be justified by motives other than tax avoidance, i.e., that the taxpayer’s choice was motivated by non-tax reasons. If the taxpayer fails to demonstrate one or more sufficient non-tax-based motives, the tax authorities can recalculate the taxable base and tax computation in such a way that taxation in accordance with the legislative objectives is possible, as if there were no abuse.

**Value added tax:**

<table>
<thead>
<tr>
<th>Rates</th>
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</thead>
<tbody>
<tr>
<td><strong>Standard rate</strong></td>
</tr>
<tr>
<td><strong>Reduced rate</strong></td>
</tr>
</tbody>
</table>

**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 6.11% per annum (this rate will be valid until at least 30 June 2020), and penalties range from HRK 1,000 to HRK 500,000.

**Other taxes on corporations and individuals:**

Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the federal level.

**Social security contributions** – 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 16.5% of gross salary.

**Payroll tax** – Croatia does not impose payroll tax.

**Capital duty** – Croatia does not impose capital duty.

**Real property tax** – Croatia does not impose real property tax.
**Transfer tax** – Transfers of real estate by private individuals and by businesses that are not subject to VAT are liable to a 3% transfer tax. The tax base for real estate transfer tax purposes is the market value of the property.

**Stamp duty** – Croatia does not impose stamp duty.

**Inheritance/estate tax** – Croatia does not impose net wealth/net worth tax.

**Inheritance/estate tax** – Individuals are subject to a 4% inheritance and gift tax on transfers of cash, securities, or movable assets with an individual market value in excess of HRK 50,000, 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. A 3% transfer tax applies on the market value of inherited or donated real property (see “Transfer tax,” above) although transfers between immediate relatives (spouses, siblings, and children) regarded as inheritances or gifts are not subject to taxation.

**Other** – Companies also may be subject to forest contributions, tourism contributions, and cultural monument contributions.

**Tax treaties:** Croatia has concluded over 60 tax treaties. Croatia signed the OECD multilateral instrument (MLI) on 7 June 2017. For information on Croatia’s tax treaty network, visit [Deloitte International Tax Source](https://www2.deloitte.com/en/insights/focus/transfer-pricing/transfer-tax.html).

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

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