

Croatia



Background

The corporate income tax rate in Croatia is 20%.

Nature of incentives

The research incentive allows super deductions against corporate income tax for eligible expenses related to R&D projects. The super deduction depends on the type of research activities:

- Fundamental research projects: 250% super deduction
- Applied research projects: 225% super deduction
- Developmental research projects: 200% super deduction
- Technical feasibility studies: 175% super deduction

Qualified research activities include the following:

Fundamental research: includes activities undertaken to expand scientific knowledge and know-how (not linked with any industrial and/or commercial goals).

Applied research: includes planned research or critical exploration to acquire new knowledge that may be used in the development of new products, production processes or services, or for significant improvements in existing products, production processes or services.

Developmental research: includes activities intended to convert the applied research results into plans, drawings or models for new, modified or improved products, production processes or services that are intended for sale or use, including the manufacture of prototypes. In addition, development research may include conceptual planning and modeling of alternative products, production processes or services, as well as the first demonstration of pilot projects, provided those projects cannot be redesigned or used for industrial application purposes of commercially exploited. Development research does not include routine or regular alterations of products, production lines, production processes, existing services and other current activities, even though such alterations represent improvements.

Technical feasibility studies: include activities performed prior to beginning an applied or developmental project with the goal of evaluating the existence of sufficient technical expertise to complete the project based on technical requirements.

Croatia offers super deductions at rates ranging from 175%–250%.

Eligible industries and qualifying costs

Eligibility is broad and is not limited to particular industries.

Eligible expenses include:

- Employee salaries directly involved in the research.
- Raw materials including packaging, spare parts, inventory used, energy consumed, materials and parts for the maintenance of machinery and equipment used directly for the research.
- Costs of contract services used during the research, such as engineers and scientists hired to develop and research technologies and projects.
- The portion of the depreciation expenses allocable to property, plant and equipment used in research.
- The amortization of the costs incurred to acquire patents used in research.
- License fees paid to use technology in qualified research.

Other costs will also qualify for the super deduction if they are necessary for research and can be reasonably and consistently allocated directly to research, such as professional liability insurance, overhead costs to insure equipment and personnel, and rentals and membership fees for scientific organizations related to the research activity.

IP and jurisdictional restrictions

There is no restriction on the location of the research activities or the location of the IP.

Other concerns

An application form must be submitted to the Ministry of Science to obtain approval for the specific qualified activities claimed by the taxpayer. The Ministry can down-grade the project to a lower ranking type of research (for example, from applied research to developmental research). The application form must be submitted before the end of the financial year in which the project commences.

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Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Super deduction	<ol style="list-style-type: none"> 1. Fundamental research project—250% deduction of eligible expenses. 2. Applied research project—225% deduction of eligible expenses. 3. Developmental research project—200% deduction of eligible expenses. 4. Technical feasibility studies—175% deduction of eligible expenses. 	Companies must submit application form to Ministry of Science for approval of super deduction.	In case of a loss generating company, incentive can be carried forward for five years.
R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
No	No	No	No