

## CROATIA

### USEFUL CONTACTS

- 0- SYNOPTIC TABLE: TAXATION OF RESIDENTS AND NON-RESIDENTS
- 1- AN OUTLINE OF COMPANY LAW
- 2- WHEN CROATIAN COMPANIES CAN BE CONSIDERED RESIDENT OR NON-RESIDENT?
- 3- BUSINESS AND NON-BUSINESS ACTIVITIES (ADMINISTRATIVE OFFICES, LIAISON OFFICES, PURCHASING OFFICES, ETC.)
- 4- WHICH FOREIGN LOCAL UNITS CAN BE OPENED IN CROATIA: SECONDARY ESTABLISHMENTS, BRANCHES, SUBSIDIARIES OR PERMANENT ESTABLISHMENTS?
- 5- CALCULATING TAXABLE INCOME
- 6- TREATMENT OF LOSSES
- 7- IS INTEREST DEDUCTIBLE?
- 8- IS DEPRECIATION DEDUCTIBILITY ACKNOWLEDGED?
- 9- WHAT TAX TREATMENT IS APPLIED TO RESIDENT COMPANIES?
- 10- ARE GROUP COMPANIES CONSIDERED SINGLE COMPANIES FOR FISCAL PURPOSES?
- 11- WHAT TAX TREATMENT IS APPLIED TO FOREIGN LOCAL UNITS AND NON-RESIDENT COMPANIES?
- 12- ARE CAPITAL GAINS TAXED?
- 13- WHAT TAX TREATMENT IS APPLIED IN CASE OF COMPANY LIQUIDATION'?
- 14- TRANSFER OR REPURCHASE OF SHARES: HOW ARE THEY TAXED?
- 15- WHAT OTHER TAXES ARE APPLIED IN CROATIA?
- 16- DIVIDENDS, INTERESTS AND ROYALTIES: HOW ARE THEY CONSIDERED AND TAXED?
- 17- HOW ARE CALCULATED STOCKS OR INVENTORIES?
- 18- HOW ARE RESIDENT INDIVIDUALS TAXED?

- 19- HOW ARE FOREIGN INDIVIDUALS TAXED? WHEN ARE THEY CONSIDERED RESIDENT?
- 20- TERMS FOR TAX PAYMENTS: THE FISCAL YEAR IN FRANCE
- 21- WHAT TAX INSPECTIONS ARE MADE?
- 22- CAN TAXPAYERS AGREE IN ADVANCE THEIR TAX TREATMENT?
- 23- WHAT EXCHANGE CONTROLS ARE CARRIED OUT?
- 24- WHAT TAX RELIEFS AND INCENTIVES ARE GRANTED BY THE CROATIAN GOVERNMENT?
- 25- HAS CROATIA SIGNED BILATERAL TAX AGREEMENTS WITH OTHER COUNTRIES? TABLE OF WITHHOLDING TAXES

Last reviewed: **September 24**

## USEFUL CONTACTS

### **Embassy of Italy in Croatia**

Zagabria – Embassy of Italy  
Amb. Paolo Trichilo  
22, Meduliceva Ulica - 10000 Zagabria  
Tel. 0038514846386  
Fax 0038514846238  
Website: [www.ambparigi.esteri.it](http://www.ambparigi.esteri.it)  
E-mail : [ambasciata.zagabria@esteri.it](mailto:ambasciata.zagabria@esteri.it)  
PEC: [amb.zagabria@cert.esteri.it](mailto:amb.zagabria@cert.esteri.it)

### **Consulate of Italy in Croatia**

Fiume – Consulate General  
Cons. Gen. Iva Palmieri  
16, Riva – 51000 Fiume  
Tel. 0038551355.200 / 355230 / 355240;  
Fax 0038551355.225  
Website: [consfiume.esteri.it](http://consfiume.esteri.it)  
E-mail : [cons.fiume@esteri.it](mailto:cons.fiume@esteri.it)

### **Croatian Chamber of Commerce**

Rooseveltovej trg 2, 10000 Zagabria  
Tel. 0038514606708  
E-mail : [hgk@hgk.hr](mailto:hgk@hgk.hr)  
Website: <https://www.hgk.hr/>

### **Embassy of Croatia in Italy**

Rome – Embassy of Croatia  
27, Orsini – 00192 Rome  
Tel. 0039 06 3630 7650, 3630 7300  
E-mail: [vrhrim@mvep.hr](mailto:vrhrim@mvep.hr)  
Website: [info.roma@mvep.hr](mailto:info.roma@mvep.hr)

### **Consulate of Croatia in Italy**

Milano – Consulate of Croatia in Milan  
Piazzale Luigi Cadorna, 15 - 20123 Milano  
Tel. 0039028051772  
E-mail: [milano@mvep.hr/](mailto:milano@mvep.hr/)  
PEC: [consolato.croato.milano@sicurezzapostale.it](mailto:consolato.croato.milano@sicurezzapostale.it)

**0-SYNOPTIC TABLE: TAXATION OF RESIDENTS AND NON-RESIDENTS**

	RESIDENTS	NON-RESIDENTS
CORPORATE INCOME TAX	18%	
	20% . income 0-50,400 eur 30% - over 50,400 eur	
TAXES ON CAPITAL GAINS	18% treated as ordinary income	
WITHHOLDING TAXES		
Dividends	25%	10%
Interests	25%	15%
Royalties	25%	15%
PERSONAL INCOME TAX	20% - 30%	
OTHER TAXES		
Tax on real estate transfer	3%	
Fee on slot machines	25% of daily taking + annual fees	
Tax on insurance premiums	15% on obligatory insurance contracts 10% on comprehensive insurance contracts	
VAT	Standard rate: 25% Reduced rates of 13% or 5% apply to the supply of certain goods and services. 0% rate applicable for supply and installation of solar panel. Exempt from VAT: such as postal services, service closely linked to sports, public radio and television activity.	
LOSSES		
Carried forward	5 consecutive years	
Carried back	Not allowed	
DEPRECIATION		
Fixed assets	5% -50%	
Intangible assets	Incorporation: 4 years Goodwill: not deprieciable	

## 1- AN OUTLINE OF COMPANY LAW

Due to the limitation of shareholders' liability, companies are the preferred choice for both Croatian and foreign businesses, although the use of branches is not uncommon. There are no restrictions for foreign investors to register and operate a company in Croatia. The equal treatment of domestic and foreign companies is guaranteed by the Croatian constitution.

### **Limited liability companies**

A limited liability company is the most common form of company used by foreign investors due to the relatively simple incorporation requirements. The company name must contain the abbreviation "doo". A limited liability company may be incorporated by one or more individuals or legal entities. The minimum registered capital requirement for a limited liability company is EUR2,500 (HRK20,000 before 1 January 2023), which may be contributed in cash, in kind, or in rights, provided that non-monetary contributions have undergone an auditor's valuation. Each founder must pay at least 25% of any contributions in cash at incorporation. The remainder must be paid up within one year of incorporation.

### **Simple limited liability companies**

A simple limited liability company (jednostavno društvo s ograničenom odgovornošću (jdoo)) can be formed with a maximum of 5 shareholders and one member of management. The minimum registered capital is EUR1 (HRK10 before 1 January 2023) and must be paid up in cash. The minimum share value is EUR1 (HRK1 before 1 January 2023). A quarter of annual profits of a simple limited liability company must be reserved.

This simple limited liability company form was introduced by the government in order to promote self-employment.

### **Joint stock companies**

The joint-stock company can be formed by one or more individuals or legal entities. The minimum registered capital requirement for a joint-stock company is EUR25,000 (HRK200,000 before 1 January 2023), which may be contributed in cash, in kind, or in rights, provided that non-monetary contributions have undergone an auditor's valuation. The minimum nominal value of a share is EUR1 (HRK10 before 1 January 2023) and higher values must be multiples thereof. A joint-stock company may offer its shares for trading on the stock market subject to listing rules.

A joint-stock company may have both registered shares and bearer shares. Shares may be ordinary or privileged (preferential) shares. Holders of ordinary shares have the right to vote in the general assembly, to receive dividends and to receive the corresponding share of assets on liquidation. Owners of preferential shares have the value of dividends that they are entitled to receive determined in advance. They also enjoy priority in the payment of dividends and in receiving their share of assets on liquidation.

A joint-stock company is administered by a "general assembly", a management board and, where applicable, a supervisory board.

All companies operating in Croatia are required to keep double-entry accounting records and to draw up yearly financial statements, consisting of a balance sheet, a profit and loss account, a cash flow statement, a statement of changes in equity and notes to the financial statements. All accounts and financial statements must be kept in the Croatian language and currency.

Corporations are taxed as legal entities, separately from their shareholders. Corporate tax is imposed in the form of a profit tax at the rate of 18% (10% for taxpayers whose annual revenue is less than EUR1 million (HRK7.5 million before 1 January 2023)). Corporations must prepare annual corporate tax returns and pay corporate tax on their annual profits. A corporation can carry forward losses and deduct them from the profits arising in the following 5 consecutive tax periods. The profits of a company are taxed at the corporate level only and therefore, when taxed profits are distributed to shareholders, no withholding tax applies to such distributions.

## **Partnerships**

Croatian law provides for two types of partnership:

- .general partnerships (javno trgovačko društvo (jtd))
- .limited partnerships (komanditno društvo (kd)).

The main distinguishing feature is that while a general partnership is only formed by general partners whose liability is unlimited, a limited partnership is formed by both general partners, and by limited partners, whose liability is limited to the proportion of their invested capital. The powers of management and representation of a limited partnership rest with the general partners.

For tax purposes, the income of partnerships is treated in the same way as the income of a corporation and as such, is subject to profit tax at the rate of 18% (10% for taxpayers whose annual revenue is less than EUR1 million (HRK7.5 million before 1 January 2023)) at partnership level. Distributed partnership profits are exempt from tax.

## **Branches**

A non-resident business may generally conduct business in Croatia under the same conditions as a resident business through a branch or other permanent establishment (PE). A branch does not constitute a separate legal entity and consequently, all liability is ultimately born by the parent business.

Authorisation to conduct business in Croatia commences from the date on which a branch and the scope of its trading activity is entered in the Court Register. A branch must also have a permanent address and a resident representative to act on its behalf with the Croatian tax authorities. In all the business dealings of a branch, both the branch name and the identity of the principal company must be used. Where the same foreign entity has two or more branches in Croatia, one of these has to be designated as the principal branch. Branches are subject to profit tax at the rate of 18% (10% for taxpayers whose annual revenue is less than EUR1 million (HRK7.5 million before 1 January 2023)) on their Croatian source income and are generally subject to the same tax rules as domestic corporations.

The profits attributable to a Croatian PE are taxed at the corporate level. Any further remittances and dividends to foreign parent companies are generally subject to withholding tax at a rate of 10% unless reduced by a tax treaty. A withholding tax rate of 25% (20% before 1 January 2024) applies to dividends paid to residents of countries that are listed on the EU list of non-cooperative jurisdictions and do not have an effective tax treaty with Croatia.

Dividends paid to a parent company resident in an EU member state are exempt from dividend withholding tax if the parent company has held 10% of the subsidiary company's capital for an uninterrupted period of 24 months.

The profits attributable to a Croatian PE are taxed at the corporate level. Any further remittances and dividends to foreign parent companies are generally subject to withholding tax at a rate of 10% unless reduced by a tax treaty. A withholding tax rate of 25% (20% before 1 January 2024) applies to dividends paid to residents of countries that are listed on the EU list of non-cooperative jurisdictions and do not have an effective tax treaty with Croatia.

Dividends paid to a parent company resident in an EU member state are exempt from dividend withholding tax if the parent company has held 10% of the subsidiary company's capital for an uninterrupted period of 24 months.

## **Sole proprietorships**

A sole proprietorship (trgovac pojedinac (tp)) is composed of an individual who independently owns and operates a business. This form of business does not result in a separate legal entity. Of all Croatian business entities, the sole proprietorship involves the least number of formalities and involves minimal cost to set up. There is, however, the disadvantage of unlimited liability. Business creditors can have claim to all the assets of the sole proprietor, not just the business assets. Alternatively, entrepreneurs can establish a simple limited liability company. As a basic rule, an individual generating income through independent activities is subject to personal income tax.

However, a sole proprietor becomes subject to profit tax laws when the sales revenue of their business in the preceding tax period exceeded EUR1 million (HRK7.5 million before 1 January 2023).

In such cases, the profits of the Croatian sole proprietorship become subject to profit tax at the rate of 18% (10% for taxpayers whose annual revenue is less than EUR1 million (HRK7.5 million before 1 January 2023)) in the same way as the profits of other business entities.

## **2- WHEN CROATIAN COMPANIES CAN BE CONSIDERED RESIDENT OR NON-RESIDENT?**

The determining factor for Croatian tax liability is generally the residency of the tax subject. A business is deemed to be resident in Croatia if:

- it is entered in the Croatian Court Register, or
- it is managed and controlled in or from Croatia.

Additionally, a business operated by an individual also qualifies as a Croatian resident business when the individual is habitually resident or domiciled in Croatia and the relevant business activities are registered in a Croatian register.

## **3- BUSINESS AND NON-BUSINESS ACTIVITIES (ADMINISTRATIVE OFFICES, LIAISON OFFICES, PURCHASING OFFICE, ETC.)**

The most commonly used Croatian business forms are:

- limited liability company (društvo sa ograničenom odgovornošću (do))
- simple limited liability company (jednostavno društvo s ograničenom odgovornošću (jdo))
- joint-stock company (dioničko društvo (dd))
- general partnership (javno trgovačko društvo (jtd))
- limited partnership (komanditno društvo (kd))
- branch
- sole proprietorship (trgovac pojedinac (tp)).

Due to the limitation of shareholders' liability, companies are the preferred choice for both Croatian and foreign businesses, although the use of branches is not uncommon. There are no restrictions for foreign investors to register and operate a company in Croatia. The equal treatment of domestic and foreign companies is guaranteed by the Croatian constitution.

Besides the business forms listed above, the Companies Act also recognises other kinds of entity such as economic interest groupings or undisclosed partnerships. However, these structures are rarely used to conduct business in Croatia.

## **4- WHICH FOREIGN LOCAL UNITS CAN BE OPENED IN CROATIA: SECONDARY ESTABLISHMENTS, BRANCHES, SUBSIDIARIES OR PERMANENT ESTABLISHMENTS?**

In terms of Croatian law, a permanent establishment arises when the foreign business conducts all or part of its activities in Croatia. Such a location may be a management centre, a branch, an office, a factory or workshop, a construction site, etc. A permanent establishment also arises when a business engages in repeated trading activities in Croatia through an authorised agent. The definition of a permanent establishment in the Croatian Profit Tax Act is in line with the permanent establishment definition contained in tax treaties based on the OECD model. Both definitions expressly state that places used for activities such as warehousing, exhibition and supply of inventories, purchase of goods, collection of information and other activities of a preparatory or secondary nature are expressly excluded from the definition of a permanent establishment.

## **5- CALCULATING TAXABLE INCOME**

Taxable corporate profits are defined as the accounting difference between the income and the expenditure of a company in a given tax period. Besides the common kinds of trading income, passive income and capital gains, the Croatian Profit Tax Act (ZPDOb) also expressly stipulates that any profit derived from the liquidation, sale, change in the legal form or division of a company also constitutes taxable income. Taxable profit is reduced for income from dividends and shares in profit which were not treated as tax deductible expenses by their payer. Croatian resident companies are taxed on their worldwide profits, while the taxable profits of non-resident companies are those originating in Croatia.

For corporate profit tax purposes, the main kinds of income that are exempt from tax are as follows:

- income from profit distributions, including dividends
- income resulting from an adjustment of the value of shares and other securities (unrealised income)
- income from written-off claims which were collected, but not excluded from the tax base as deductibles in previous tax periods
- amounts received as result of government support in the form of tax exemptions or other relief granted under special legislation.

Reinvested profits may be exempt from tax. The exemption applies where the reinvestment is in long-term assets that decrease the taxpayer's tax base, and the taxpayer preserves the existing employment headcount for at least 2 years following the reinvestment. These requirements are in addition to an existing requirement that the reinvestment increase share capital.

### **Allowable deductions**

The Profit Tax Act lays down the general rule that expenditure related to a company's business activity is tax deductible. Consequently, costs and outgoings incurred in the production, maintenance, and/or the development of business are deducted from the taxable income of a company.

### **Non-deductible and partially deductible expenses**

The basic rule is that expenses which are unrelated to business, and therefore not incurred to produce, ensure and maintain taxable income, are non-deductible.

Some expenses are partially deductible ie

- 50% of the expenses incurred for the entertainment of business partners, which include those made in respect of meals and drinks, gifts, leisure activities, the rental of cars, vessels, aircraft, accommodation, etc.
- 50% of expenses incurred in respect of the personal means of transport (cars, vessels and aircraft) of employees, including members of management and supervisory boards;
- gifts made in cash or kind in Croatia for cultural, scientific, educational, health, charitable, sports, religious, environmental or other socially beneficial purposes, up to an amount not exceeding 2% of the revenue generated by the business in the previous tax year.

## **6- TREATMENT OF LOSSES**

Unutilised losses may be carried forward to offset future profits for up to 5 consecutive years using the first-in-first-out method. There is no limit on the specific amount of losses that may be carried forward every year. Losses may not be carried back.

Capital gains are included with trading income for the purposes of corporate profit tax and capital losses are treated in the same way as trading losses.

The losses of a company may not be set off against the profit of another company in the same group.



## 7- IS INTEREST DEDUCTIBLE?

Interest incurred in the production of taxable income is generally tax deductible for Croatian tax purposes.

### Thin capitalisation

Croatia's thin capitalisation rules apply to loans received from qualified shareholders, ie shareholders owning at least 25% of the share capital or voting rights of the borrowing company. Interest is not treated as a deductible expense if, at any time during the tax period, the loan granted by the qualified shareholder exceeds four times the amount of its shareholding in the borrowing company's equity capital. A 4:1 debt-to-equity ratio therefore applies. This thin capitalisation rule applies equally to loans received from third parties and guaranteed by qualified shareholders.

### Interest deductibility limits

The deduction of excess borrowing costs is limited to the higher of 30% of EBITDA (earnings before interest, taxes, depreciation and amortisation) or EUR3 million. Non-deductible excess borrowing costs may be carried forward for three years, subject to the same restrictions. The EBITDA rules do not apply to financial institutions or to entities that do not form part of a consolidated group for tax purposes and are not related to any other parties.

## 8- IS DEPRECIATION DEDUCTIBILITY ACKNOWLEDGED?

The depreciation of fixed tangible and intangible assets is recognised as deductible expenditure for Croatian tax purposes. The amount of depreciation is calculated on an individual basis by applying the statutory annual depreciation rates to the acquisition costs, using the straight-line method.

Assets	Depreciation period	Annual depreciation rates
	Years	%
Buildings and ships of over 1,000t	20	5
Passenger cars	5	20
Intangible assets, equipment, vehicles (excluding passenger cars) and machinery	4	25
Computer hardware, software, network accessories and mobile phones	2	50
Other assets	10	10

As indicated in the table above, intangible assets are generally depreciated over a period of four years at a rate of 25% using the straight-line method. However, goodwill arising from mergers and acquisitions cannot be depreciated.

The depreciation of vehicles, marine vessels, airplanes, apartments and holiday houses is recognised as a deductible expense only if the business activity is registered as rental or transport and if the following conditions are met:

- the unit price of vehicles does not exceed EUR54,000 (HRK400,000 before 1 January 2023)
- individual vessels or airplanes must have generated profits equivalent to at least 7% of the purchase price during a particular tax period
- rental income derived from individual apartments or holiday houses in a particular tax period must be equivalent to at least 5% of the purchase price.

Furthermore, land, forests, financial assets, cultural monuments and works of art cannot be depreciated.

#### **9- WHAT TAX TREATMENT IS APPLIED TO RESIDENT COMPANIES?**

Corporate income tax, as applicable to both resident and non-resident corporations, is charged at the standard profit tax rate of 18% on income and capital gains for 2024 (no change since 2017). A reduced rate of 10% (12% before 1 January 2021) applies to taxpayers whose annual revenue is less than EUR1 million (HRK7.5 million before 1 January 2023; HRK3 million before 1 January 2020).

#### **10- ARE GROUP COMPANIES CONSIDERED SINGLE COMPANIES FOR FISCAL PURPOSES?**

Croatia does not have a system of group taxation. Consolidated returns are therefore not permitted for tax purposes. Consequently, the losses of a company may not be set off against the profits of another company in the same group. It must be noted, however, that a company having a "dominant influence" over another company or companies must prepare consolidated financial statements.

#### **11- WHAT TAX TREATMENT IS APPLIED TO FOREIGN LOCAL UNITS AND NON-RESIDENT COMPANIES?**

Corporate income tax, as applicable to both resident and non-resident corporations, is charged at the standard profit tax rate of 18% on income and capital gains for 2024 (no change since 2017). A reduced rate of 10% (12% before 1 January 2021) applies to taxpayers whose annual revenue is less than EUR1 million (HRK7.5 million before 1 January 2023; HRK3 million before 1 January 2020). Before 1 January 2017, a standard flat profit tax rate of 20% had applied to all taxpayers since 2007. No withholding tax is charged on dividend distributions.

Dividends received from foreign companies are not subject to Croatian tax in the hands of the recipient and are therefore excluded from the recipient's tax base. Such dividends may, however, be subject to withholding tax in the hands of the paying company abroad. This may be reduced where Croatia has a double tax treaty in place.

Non-resident dividend payments are generally subject to withholding tax at the rate of 10%. Interest and royalty payments are generally subject to withholding tax at the rate of 15%. The rates may be reduced if a relevant tax treaty is in place.

#### **12- ARE CAPITAL GAINS TAXED?**

Croatian taxable capital gains include gains arising from all kinds of assets, including movable and immovable property and any rights pertaining thereto, shares, securities, units held in investment funds, and other kinds of financial instruments or investments.

There is no separate capital gains tax for corporations in Croatia, and no distinction between ordinary income and capital gains for income tax purposes. Capital gains are treated in the same way as ordinary income.

Capital gains tax is imposed at a rate of 12% (10% before 1 January 2024) on realised capital gains arising from the disposal of financial assets by individuals, with some exceptions.

Generally all kinds of capital gain realised by businesses are taxable as described above. On the other hand, private individuals realising gains from the disposal of financial assets are exempt from paying capital gains tax thereon if the financial asset concerned:

- was acquired by the seller at least 2 years prior to the disposal
- is transferred between members of an immediate family or spouses, or
- is disposed of as part of divorce proceedings.

#### **13- WHAT TAX TREATMENT IS APPLIED IN CASE OF COMPANY LIQUIDATION?**

The main reasons for the dissolution of limited liability and joint-stock companies in Croatia are:

- when the fixed period of duration for which the company was formed lapses
- when a resolution is taken to this effect at the general meeting with at least 75% of the shareholding voting in favour (the articles of association may require a larger majority and add further requirements)
- if the court establishes that the corporation is null and void or otherwise orders the dissolution of the company
- in the event of bankruptcy
- in the event of a merger with another company.

The process of liquidation can be carried out by the company itself or by the court.

For Croatian tax purposes, any income derived from the liquidation of a company is added into the corporate tax base along with ordinary income and is charged to tax as such.

However, when such income is subsequently distributed to resident shareholders, no further tax is charged thereon as dividends and other profit distributions are exempt under Croatian law.

#### **14- TRANSFER OR REPURCHASE OF SHARES: HOW ARE THEY TAXED?**

Under Croatia's Companies Act (ZTD), a company can only acquire its own shares where:

- this is urgently required for the prevention of serious damage to the company (the total value of the shares acquired may in no case exceed 10% of the company's subscribed capital)
- this is required in order to offer the shares for sale to the company's employees or to the employees of an affiliated company (the total value of the shares acquired may in no case exceed 10% of the company's subscribed capital)
- this is required for the provision of compensation to shareholders as stipulated in accordance with the Companies Act (the total value of the shares acquired may in no case exceed 10% of the company's subscribed capital)
- the shares are acquired by the company without payment
- shares are acquired in the course of universal legal succession, or
- this takes place on the basis of a resolution of the shareholders taken at the general assembly for the purpose of reducing the company's subscribed capital.

#### **Taxation**

Any income derived by a company from the repurchase of its own shares is added into its tax base along with ordinary income and is charged to tax as such.

#### **15- WHAT OTHER TAXES ARE APPLIED IN FRANCE?**

##### **VAT**

The standard Croatian VAT rate is 25%.

Furthermore, reduced rates are applied as follows.

.13%, among the main services: holiday accommodation, newspaper and magazines, video recordings or musical content, children's car seats and babies nappings, water supplies, fuel wood, pellets, bruguettes and chipped wood...

.5%: all types of bread and milk, books of primary, secondary and tertiary education, medical equipment, daily newspapers, scientific journals, supply of fresh fish and dried fruits and nuts...

.A VAT of 0% is applicable for supply and installation of solar panels on private residential buildings, and public buildings used for activities of public interest.

Certain supplies are exempt from VAT such as services and deliveries of goods by public institutions in the field of culture, such as museums, galleries, libraries, theatres...postal services, public radio and television, health care, services closely linked to sports...

##### **Motor vehicles tax**

In Croatia, motor vehicles are subject to excise tax as follows:

- new motor vehicles that enter, are imported into or are purchased in Croatia for use on Croatian roads are taxed at a basic fee of between EUR12.61 and EUR14,352, depending on the vehicle's fuel type and CO2 emissions, plus a rate of between 1% and 25%, depending on the vehicle's sale price
- sales of used motor vehicles in Croatia are taxed at a rate of 5%.

The tax does not apply to electric motor vehicles, diplomatic missions or international organisations and institutions of the EU and their officials.

#### **Non-alcoholic beverages**

A special excise tax is imposed on non-alcoholic beverages that are placed on the Croatian market, including non-alcoholic beverages, syrups, concentrates, powders and granules that contain added sugars, methylxanthines or taurine, and beverages with an alcoholic strength not exceeding 1.2%. The applicable tax rates are due to be set by Decree.

#### **Coffee**

A special excise tax is imposed on coffee that is placed on the Croatian market.

#### **Alcohol, alcoholic beverages, tobacco products, energy products and electricity**

Excise duty is levied on locally produced or imported alcohol, alcoholic beverages, tobacco products, energy products and electricity.

The duty rates for alcohol and related products depend on alcohol content. The duty rate on ethyl alcohol is EUR796.34 per hectolitre of pure alcohol. The duty rate on beer is EUR5.31 per 1% of alcohol content per hectolitre of beer. The duty rate on wine is EUR0.

The duty rates on tobacco and tobacco products range from EUR53.10 per 1,000 plus 34% of the retail price (subject to a minimum of EUR117.87 per 1,000) for cigarettes to EUR114.15 per kilo for tobacco.

Energy products subject to excise duty are petrol, gas oil and kerosene.

#### **Special tax on obligatory and comprehensive road vehicle insurance premiums**

Insurance premiums paid for motor vehicles are subject to a special tax under the Obligatory and Comprehensive Road Vehicle Insurance Premiums Tax Act (ZPPOA). The tax is payable by the insurer and is based on the amount of the insurance premium. The rate for the obligatory insurance contracts is 15%, while that applicable to comprehensive insurance contracts is 10%.

#### **County taxes and city or municipal taxes**

The taxes levied by counties are:

- inheritance and gifts tax
- tax on road motor vehicles
- tax on vessels
- a levy on coin-operated amusement machines.

The taxes levied by cities or municipalities are:

- surtax on income tax
- consumption tax on beverages
- tax on holiday homes
- tax on the use of public areas.

#### **Fees on slot machines**

Operators of slot machines are required to pay a monthly fee amounting to 25% of the daily takings of all the devices operated by them. In addition, the following annual fees must be paid:

- EUR1,327.23 for the standard operation of slot machine games
- EUR5,309.91 for the operation of slot machine games in a club on an electronic roulette having a capacity of up to 6 playing places
- EUR6,636.14 for the operation of slot machine games in a club on an electronic roulette having a capacity exceeding 6 playing places.

### **Real estate transfer tax**

The Real Estate Transfer Tax Act lays down the general rule that acquirers of immovable property (land and buildings) are liable to a real estate transfer tax of 3%. The tax is calculated on the transfer price, or on the market value of the asset at the moment of the transaction, whichever is the higher.

Certain transfers are exempt from real estate transfer tax, including:

- acquisitions of newly built properties (these are taxed in terms of VAT rules)
- first-time acquisitions by Croatian citizens, subject to certain caps on the surface area of the premises
- acquisitions for use by self-governing units, public government bodies, trusts and foundations, the Red Cross, diplomatic and consular offices, and refugees, and
- acquisitions of property falling under any of the following categories:
  - property forming part of the share capital of the purchasing company
  - property acquired in the process of a merger
  - property donated or inherited between spouses and lineal relatives.

## **16- DIVIDENDS, INTERESTS AND ROYALTIES: HOW ARE THEY CONSIDERED AND TAXED?**

### **Dividends**

Dividends distributed by Croatian companies to non-residents are generally subject to 10% withholding tax (12% before 1 January 2021). Interest and royalties are subject to a 15% withholding tax. The rates may be reduced under Croatia's tax treaties.

A withholding tax rate of 25% (20% before 1 January 2024) applies to dividends, interest and royalties paid to residents of countries that are listed on the EU list of uncooperative jurisdictions and do not have an effective tax treaty with Croatia.

Dividends, interest and royalties paid to a parent company resident in an EU member state are exempt from withholding tax if the parent company has held 10% (25% in the case of interest and royalties) of the subsidiary company's capital for an uninterrupted period of 24 months.

### **Interest**

In Croatia, interest payments made to non-residents are generally subject to withholding tax at a rate of 15%, subject to any applicable tax treaty. A withholding tax rate of 25% (20% before 1 January 2024) applies to interest paid to residents of countries that are listed on the EU list of non-cooperative jurisdictions and that do not have an effective tax treaty with Croatia.

The following kinds of interest payment are exempt from withholding tax:

- interest paid on loans raised for the purchase of goods used for business purposes
- interest paid on loans granted by foreign banks or other credit institutions
- interest paid to non-resident entities holding government or corporate bonds, and
- interest paid to a parent company resident in an EU member state if the parent company has held 25% of the subsidiary company's capital for an uninterrupted period of 24 months.

### **Royalties**

Royalties are subject to withholding tax at the rate of 15%. A withholding tax rate of 25% (20% before 1 January 2024) applies to royalties paid to residents of countries that are listed on the EU list of non-cooperative jurisdictions and that do not have an effective tax treaty with Croatia.

Royalties paid to a parent company resident in an EU member state are exempt from withholding tax if the parent company has held 10% (25% in the case of interest and royalties) of the subsidiary company's capital for an uninterrupted period of 24 months.

## 17- HOW ARE CALCULATED STOCKS OR INVENTORIES?

In terms of Croatian accounting rules, the treatment of trading stock and inventories is subject to International Financial Reporting Standards (IFRS) for large companies and listed companies, while that of unlisted small and medium-sized companies is subject to Croatian Financial Reporting Standards (HSFI).

The initial value of inventory is its purchase value, including non-recoverable taxes (import duties, non-recoverable VAT, etc) and direct costs related to the purchase. The purchase price needs to be reduced by any discounts received. The initial value of final products or work-in-progress should be the production cost.

Inventory is made up of purchased goods held for resale, finished products, work-in-progress and material to be used in the production process or to render a service. The following methods of stock price calculation are allowed:

- the first-in, first-out method (FIFO)
- the weighted average price method, and
- the specific identification of costs method.

## 18- HOW ARE RESIDENT INDIVIDUALS TAXED?

For personal income tax purposes (ie income from employment, self-employment, capital, insurance, etc, which falls outside the scope of the profit tax), an individual is treated as being a Croatian tax resident if their domicile or habitual residence is in Croatia. An individual who is employed with and receives employment income from the Croatian civil service is also treated as a tax resident, regardless of where their habitual residence or domicile is located.

### Tax liability criteria

In general terms, the Croatian tax authority may impose tax on the worldwide income and capital gains of all individuals and companies deemed to be tax resident in Croatia. Where a Croatian resident's foreign income is subject to tax in another country, a tax treaty may allow the resident an exemption from Croatian tax on such income or a tax credit against the foreign tax paid. Unilateral relief is also available.

### Tax rates

The income of individuals is subject to progressive rates of tax. Tax rates for 2024 are as follows:

<i>Income</i> €	<i>Tax rate</i> %	<i>Tax amount</i> (eur)	<i>Cumulative</i> <i>tax (eur)</i>
0 – 50,400	20	10,800	10,080
Over 50,400	30		

The basic monthly tax allowance for 2024 is EUR392 (EUR560 for individuals with income from employment or self-employment).

### Pension, social security and national health policy

Employers are required to enrol all their employees in the compulsory Croatian system of social security, and to make social security contributions on their behalf. The compulsory contributions are divided into:

- pension insurance
- health insurance
- unemployment insurance.

Employers are exempt from paying health insurance contributions in respect of employees up to the age of 30 who are employed under an indefinite employment contract. The exemption applies for 5 years after the employment contract is signed.

Self-employed individuals are liable for the calculation and payment of their own insurance. The types of contribution and their respective rates vary depending on the activity from which the income is derived.

## **19- HOW ARE FOREIGN INDIVIDUALS TAXED? WHEN ARE THEY CONSIDERED RESIDENT?**

A business operated by an individual qualifies as a Croatian resident business when the individual is habitually resident or domiciled in Croatia and the relevant business activities are registered in a Croatian register.

Non-resident individuals are not subject to any special rates of income tax; the same rates applicable to resident individuals also apply to the Croatian source income of non-residents.

The income and capital gains of a non-resident business are liable to tax in Croatia only to the extent that such income or capital gains arise in Croatia. The income of branches of foreign companies and other PEs of foreign entities is deemed to constitute Croatian source income. However, where a double tax treaty applies, the presence or otherwise of a PE in Croatia may have an impact on Croatia's right to tax.

## **20- TERMS FOR TAX PAYMENT: THE FISCAL YEAR IN FRANCE**

The Croatian tax year, which is the same as the accounting year, is the 12-month period coinciding with the calendar year. At the request of a taxpayer, the tax authority may assign a different tax period. In any such case, the alternative tax period cannot exceed 12 calendar months and it may not be changed again for another three years.

Croatian companies assess their own corporate profits and pay the profit tax due on submission of their tax return. Self-assessed tax returns have to be presented to the tax authority within 4 months following the end of the tax year, ie generally by 30 April. The returns of medium-sized and large companies are submitted in an electronic format and must be accompanied by the balance sheet and profit and loss account.

## **21- WHAT TAX INSPECTIONS ARE MADE?**

As a general rule, the tax authority has to notify the taxpayer about the tax audit and its scope at least eight days prior to the commencement of the tax audit.

Tax audits are usually carried out at the premises of the taxpayer and the taxpayer has to allow unrestricted access to the tax inspector, who has the right to inspect all relevant documentation, premises and land in the presence of the taxpayer. Tax investigators have the right to examine all kinds of information with or without the participation of experts. Documents and other kinds of evidence are subjected to visual inspections which are recorded in the minutes of the investigation. The Croatia's statute of limitations on tax audits is 3 years. However, if there is a legal proceeding for the collection of taxes, interest and costs of confiscation, the statute of limitations is suspended during the proceedings.

In addition to the penalties, penalty interest may be due.

## **22- CAN TAXPAYERS AGREE IN ADVANCE THEIR TAX TREATMENT?**

Taxpayers may submit a written request to the Croatian tax authority for a binding opinion on the Croatian tax treatment of their future and intended transactions or business events and activities. There are no restrictions on the tax issues for which a binding opinion may be issued. The costs of issuing a binding opinion are payable by the taxpayer. The costs range from EUR663.61 to EUR3,981.68 depending on the applicant's declared tax.

## **23- WHAT EXCHANGE CONTROLS ARE CARRIED OUT?**

The Foreign Exchange Act prescribes some restrictions, however Croatia's exchange control regime is relatively liberal insofar as international business is concerned. Residents may open and maintain foreign currency accounts subject to conditions laid down by the CNB. There are

generally no restrictions related to foreign currency transactions in Croatia by non-residents. Direct investments by non-residents are also generally unrestricted. The income of non-residents made from direct investments may be transferred abroad subject to payment of all taxes due in Croatia.

#### **Acquisition of real estate in Croatia**

Natural and legal persons resident in the EU may acquire real estate in Croatia under the same conditions as Croatian residents. Some exceptions apply to agricultural land, forest land and protected areas. Non-EU residents wishing to purchase real estate in Croatia must obtain prior approval from the Croatian Ministry of Justice.

## **24- WHAT TAX RELIEFS AND INCENTIVES ARE GRANTED BY THE FRENCH GOVERNMENT?**

### **Enterprise Zones**

Certain areas of Croatia have been designated as free zones or areas of economic concern. Businesses in these areas may be eligible for up to 75% reduction in corporate income tax.

#### **Free zones**

There are currently 13 areas listed as free zones, as notified to the European Commission (July 2015), including locations in Rijeka, Split and Zagreb. In free zones there is a reduction of at least 50% of corporate income tax rates, and no customs duties on goods stored.

#### **Areas of special concern**

In these areas (such as Venkovac and Novigrad) reductions in tax were withdrawn in stages, so as of 2017 all such areas were subject to taxes at the normal rates.

#### **Research and Development**

The incentive in relation to R&D centres takes the form of support through non-refundable cash grants for acquisition of new technologies. The grants issued may cover up to 20% of related costs, up to a maximum of EUR500,000.

In addition, job creation grants paid to R&D centres are increased by 50% for investments in innovation and development activities, or 25% for all other investments.

#### **R&D costs**

Companies carrying out R&D can benefit from a tax deduction on eligible R&D costs. The maximum deductions are:

- 200% of eligible project costs for basic research
- 150% of eligible project costs for industrial research
- 125% of eligible project costs for experimental development
- 150% of eligible costs for feasibility study.

#### **Other tax incentives**

The potential beneficiary must be an individual or legal entity that is subject to corporate profit tax in Croatia. The incentives take the form of reduced rates of corporate profit tax and the extent of the incentives depends on the amounts invested and jobs created. The incentives are as follows:

<b>Amount of investment</b>	<b>Corporate profit tax rate reduction</b>	<b>Minimum “sustained” job creation requirements</b>
EUR50,000 or more (by a microenterprise)*	50% for up to 5 years following the commencement of the investment	3 new jobs maintained for the first 3 years



EUR150,000 – EUR1 million (by any entity)	50% for up to 10 years following the commencement of the investment	5 new jobs maintained for the first 3 years (5 years for large enterprises)
EUR1 million – EUR3 million (by any entity)	75% for up to 10 years following the commencement of the investment	10 new jobs maintained for the first 3 years (5 years for large enterprises)
more than EUR3 million (by any entity)	100% for up to 10 years following the commencement of the investment	15 new jobs maintained for the first 3 years (5 years for large enterprises)

\*Sole proprietors and businesses established with the aid of a government incentive or grant qualify as microenterprises.

#### **Investments related to job creation**

This incentive takes the form of non-refundable cash grants in respect of eligible costs, ie costs associated with the creation of new jobs. The amounts granted depend on the unemployment rate in the area where the jobs are to be created and are subject to maximum caps, as follows:

- investment in areas with an unemployment rate of up to 10% entitles the beneficiary to a grant of up to 10% of eligible costs, subject to a maximum of EUR3,000 for every job created
  - investment in areas with an unemployment rate of between 10% and 15% entitles the beneficiary to a grant of up to 20% of eligible costs, subject to a maximum of EUR6,000 for every job created
  - investment in areas with an unemployment rate exceeding 15% entitles the beneficiary to a grant of up to 30% of eligible costs, subject to a maximum of EUR9,000 for every job created.
- Created jobs must be maintained for at least five years. Failure to do so will result in a requirement to repay all grants received, plus penalty interest.

#### **Training of employees**

This incentive takes the form of non-refundable cash grants issued in respect of eligible costs, ie costs associated with the training of employees. The extent of the grants that may be issued depends on the size of the business, and generally may not exceed 50% of eligible costs. Grants can be increased from 50% to a maximum of 70% of eligible costs as follows:

- by 10 percentage points if the training is organised for disabled employees
- by 10 percentage points if the grant is issued for medium-sized businesses
- by 20 percentage points if the grant is issued for small and micro businesses.

#### **Special incentives for large investment projects or projects significant economic interest**

Large investment projects or projects of significant economic interest are those that involve a major investment of at least EUR5 million in activities that include the construction of new factory or industrial premises and/or equipment, innovative start-ups, or the development of new technologies. A minimum of 50 new jobs must be created in connection with the investment project within the first 3 years (5 years for large enterprises) for it to qualify under this category. To qualify, the investment project will need to be located in an area of high unemployment and the incentive may vary on the base of the unemployment rate.

#### **Audiovisual works**

A rebate of up to 30% is granted on qualifying expenditure for the production of audiovisual works in Croatia (such as feature films, documentary films, and television films). The rebate is available on up to 80% of the production's Croatian budget, subject to a cap of EUR5 million.

Local expenditure thresholds must be met which vary depending on the type of production. Foreign film producers must work together with a Croatian partner, and are required to pass a cultural test.

## 25- HAS CROATIA SIGNED BILATERAL TAX AGREEMENTS WITH OTHER COUNTRIES? TABLE OF WITHHOLDING TAXES

Croatia has concluded tax treaties with a number of countries which specify the withholding tax rates that apply. Non-treaty withholding tax rates apply when they are lower than the rate specified in the treaty or when the treaty does not provide a rate.

The following rates of Croatian withholding tax apply to non-resident entities:

	<i>Dividends</i> %	<i>Interests</i> %	<i>Royalties</i> %
<i>Non-treaty countries</i>	10/25	15/25	15/25
<i>Treaty countries</i>			
Albania	10	0/10	10
Andorra	0/5	0/5	5
Armenia	0/10	10	5
Austria	0/10	0/5	0
Azerbaijan	5/10	0/10	10
Belarus	5/10	10	10
Belgium	0/10/15	0/10	0
Bosnia Herzegovina	5/10	10	10
Bulgaria	0/5	0/5	0
Canada	5/10	10	10
Chile	5/10	5/15	5/10
China	5	0/10	10
Cyprus	0/5	0/5	0/5
Czech Republic	0/5	0	0/10
Denmark	9/5/10	0/5	0/10
Egypt	5/10	10	10
Estonia	0/5/15	0/10	0/10
Finland	0/5/10	0	0/10
France	0/10	0	0
Georgia	5	0/5	5
Germany	0/5/10	0	0
Greece	0/5/10	0/10	0/10
Hungary	0/5/10	0	0
Iceland	5/10	0/10	10
India	5/10	0/10	10
Indonesia	10	0/10	10
Iran	5/10	0/5	5
Ireland	0/10/10	0	0/10
Israel	5/10	0/5/10	5
Italy	0/150	0/10	0/5
Japan	0/5	0/5	5
Jordan	5/10	10	10
Kazakhstan	5/10	10	10
Korea	5/10	5	0
Kosovo	5/10	5	5
Kuwait	0	0	10
Latvia	0/5/10	0/10	0/10
Lithuania	0/5/10	0/10	0/10
Luxembourg	0/5/10	0/10	5
Macedonia	5/10	0/10	10

Malaysia	5/10	0/10	10
Malta	0/5	0	0
Mauritius	0	0	0
Moldova	5/10	5	10
Montenegro	5/10	10	10
Morocco	8/10	0/10	10
Netherlands	0/10	0	0
Norway	10	0	10
Oman	0	0/5	10
Poland	0/5/10	0/10	0/10
Portugal	0/5/10	0	0/5
Qatar	0	0	10
Romania	0/5	0/10	0/10
Russia	5/10	10	10
San Marino	5/10	0/10	5
Serbia	5/10	10	10
Slovakia	0/5/10	0/10	0/10
Slovenia	0/5	0/5	0/5
South Africa	5/10	0	5
Spain	0/10	0	0
Sweden	0/5/10	0	0
Switzerland	0/5/15	0	0/5
Syria	5/10	10	12
Turkey	10	10	10
Turkmenistan	10	0/10	10
Ukraine	5/10	0/10	10
United Arab Emirates	0/5	0/5	5
United Kingdom	0/5/10	0/5	5
Vietnam	10	10	10

**Belarus**

Belarus has suspended its tax treaty with Croatia in respect of dividends and interest from 1 June 2024 to 31 December 2026.

**Russia**

Russia has suspended its tax treaty with France with effect from 8 August 2023.

Croatia has not entered into any TIEAs.