AmCham

www.amcham.hr

Američka gospodarska komora u Hrvatskoj | American Chamber of Commerce in Croatia

Zagreb, October 2025

Global Minimum Corporate Tax Act

Table of Contents

Introduction

With the introduction of the Global Minimum Corporate Tax Act (Official Gazette 155/23) ("Pillar 2" or GMCTA) at the beginning of 2024, Croatia implemented provisions ensuring a minimum global effective tax rate of 15% for multinational groups and large domestic groups with revenues exceeding EUR 750 million in any two of the preceding four years. The legislation primarily targets Croatia's largest corporate groups, such as Atlantic Grupa, Podravka, Končar, INA, Orbico, and Fortenova, but it also affects subsidiaries of foreign multinational companies operating in the country.

At the same time, the Investment Promotion Act (OG 63/22, 136/24) allows companies that have made significant investments and created new jobs linked to those investments to benefit from a corporate tax reduction of up to 100% for a period of up to ten years from the year the investment commences.

However, the current global minimum tax regulation reduces the tax incentives provided under the Investment Promotion Act. This creates uncertainty for taxpayers when making business decisions related to future investments.

The GMCTA transposes the European Union Directive on ensuring a global minimum level of taxation for multinational enterprise groups and large domestic groups within the Union. The Directive itself derives from the OECD's Global Anti-Base Erosion (GloBE) rules. Given that the GMCTA implements OECD rules and the EU Directive, Croatia cannot alter its fundamental concept or deviate from international standards. What can be adjusted, however, is the Investment Promotion Act to preserve the planned objectives and intended effects of the incentives.

AmCham considers it essential to ensure predictability and competitiveness in Croatia's investment environment. It is necessary to adjust the regulatory framework promptly and consider implementing solutions aligned with best practices in other EU Member States.

Impact on the Croatian Economy

The largest Croatian companies and subsidiaries of major foreign groups represent significant investors, and their investment decisions in Croatia are largely influenced by the existing state support framework established under the Investment Promotion Act. To date, this legislation has enabled companies to benefit from corporate tax incentives, which have played a key role in fostering a positive investment climate, triggering new investment cycles by numerous major companies in the Croatian market.

It is estimated that the negative effects of the GMCTA over the coming years could significantly offset the impact of approved incentives, reducing predictability and stability in the investment environment.

Many large investors made their investment decisions before the GMCTA entered into force, following years of preparation and project approval processes. These investments generate substantial positive effects for both the investors themselves and for the wider community and the Croatian economy. As part of these projects, new jobs are created, including positions that utilize modern technologies and equipment, thereby directly supporting employment growth and strengthening local skills and competencies. Investments in production processes, for example, enhance the competitiveness and productivity of companies, benefiting not only their domestic market position but also their international standing, contributing to the overall growth of the Croatian economy.

Moreover, such investments play a key role in sustainable development. By replacing outdated equipment, companies can further decarbonize their production processes and significantly reduce their environmental impact, thereby contributing meaningfully to achieving environmental neutrality objectives.

To ensure the effectiveness of existing incentives and maintain Croatia's competitiveness in attracting investment, it is proposed that the Ministry of Economy and the Ministry of Finance jointly examine options to preserve the purpose of investment promotion, while adjusting the incentive system to mitigate the negative impact of the GMCTA provisions on the Investment Promotion Act.

In doing so, it is advisable to consider the approaches of other European countries that have already begun adjusting their incentive systems to align with Pillar 2 rules.

Country Examples

Poland – Possible changes to the tax incentive system have been announced, under which the existing framework of Polish investment zones and R&D tax relief would be replaced by a system of direct cash grants.

Romania – Legislative changes are underway to ensure that tax incentives are recognized as qualified refundable tax credits.

Austria – The primary incentive for research and development is the R&D Premium. In addition to the full deductibility of R&D expenses, activities carried out in Austria can benefit from an additional 14% uplift. The premium is paid in cash and, for accounting purposes, is recorded as income rather than a reduction of tax expense. The R&D Premium qualifies as a refundable tax credit, so Austria did not need additional regulatory adjustments. Beyond the R&D Premium, Austria also offers smaller tax incentives, which are not material for large investors and do not meet the criteria of a qualified refundable tax credit.

Hungary – Hungary applies a qualified refundable tax credit, allowing taxpayers to use up to 10% of their annual R&D expenditure to reduce corporate income tax liability. If the credit cannot be utilized within four years, the tax authority reimburses it in cash. This approach ensures full compliance with OECD requirements regarding the global minimum corporate tax, without materially affecting the obligations of local taxpayers.

Belgium – Amendments to the Corporate Income Tax Act have reduced the period in which the R&D tax credit can be refunded from five to four years, aligning the system with the criteria for a qualified refundable tax credit. The R&D tax credit can be used in the current year and carried forward to the following three tax years (instead of four) at the taxpayer's discretion. Any unused amount that cannot be offset will be refunded after four years.

Germany – Since R&D tax credits or incentives are generally not available in Germany, except for minor cash grants in some instances, this issue has not been a relevant topic in the country.

Switzerland – Several cantons (Lucerne, Basel-Stadt, Zug) are considering legislative changes to maintain their attractiveness as business locations. New incentives are primarily designed as qualified refundable tax credits or direct grants, aimed at promoting R&D activities and sustainability.

Ireland – The R&D tax credit system was amended under the Finance Act to ensure these credits qualify as refundable tax credits under Pillar 2. Payment of the incentives is possible without offsetting against tax liabilities. The tax credit for digital games has also been structured as a qualified refundable tax credit.

United Kingdom – The Research and Development Expenditure Credit (RDEC) is available to both small and large companies in the UK. RDEC is treated as an addition to income rather than a reduction in corporate tax when calculating the effective tax rate (ETR). Companies can claim a taxable credit payable at a rate of 20%. The credit is shown "above the line" and reflected in the company's operating profit, similar to a government grant. Because the credit is taxable, with a corporate tax rate of 25%, the net benefit to the company is approximately 15%. Any unused credit may be carried forward for future reimbursement.

Czech Republic – The government is considering introducing new tax incentives in the form of cash grants for investments in selected industrial sectors critical for the "green economy."

Recommendations

- ***AmCham's proposal***

  The Ministry of Economy should amend the Investment Promotion Act by introducing direct cash grants as a form of incentive, thereby increasing Croatia's competitiveness.

Instead of the current incentive model based on corporate tax reductions under the Investment Promotion Act, it is proposed to implement direct cash grants. This approach reduces the risks of legal uncertainty and potential conflicts with Pillar 2 rules, as cash grants are treated as direct state support rather than as a reduction of corporate tax liabilities.

These grants could be disbursed in phases, linked to the achievement of specific conditions within investment projects (e.g., creating new jobs, investment in targeted sectors, and maintaining the investment).

The recommended legislative framework should also ensure that the payment of cash grants is transparent, subject to appropriate controls, and limited by clear eligibility criteria that entrepreneurs must meet.

Incentives in the form of cash grants offer a clearer and legally safer mechanism of support, while allowing the state greater control and flexibility in providing incentives.

Such an amendment to the Investment Promotion Act would support the continued stimulation of investments in Croatia through a more predictable and legally compliant mechanism, particularly in the context of implementing Pillar 2 rules.

- ***AmCham's proposal***

  The Ministry of Finance should adopt a Rulebook on the Minimum Global Corporate Tax that clearly explains and defines the existing impact of the Pillar 2 provisions on the Investment Promotion Act, specifically on the incentives themselves.

The Rulebook should explicitly define the interaction between investment incentives and Pillar 2 rules, detailing the calculation of effective tax rates in cases when incentives are used in line with the current Investment Promotion Act.

It should also clarify how direct cash grants are treated under Pillar 2, particularly given their different impact on the effective corporate tax rate and the corresponding top-up tax.

The planned Rulebook should specify clear procedural steps, calculations, and deadlines for submitting applications, as well as penalties for inaccurate reporting of incentives. It should be drafted in the form of practical guidelines and recommendations, including concrete examples and frequently asked questions, to facilitate the understanding of complex tax rules. It should include glossaries, explanations of technical terms, and illustrations of the effects of different types of incentives in the context of Pillar 2.

Such a Rulebook represents a logical and necessary complement to Pillar 2, aligning the domestic regulatory framework with the OECD Commentary and the implemented EU Directive.

We believe that this Rulebook would provide legal certainty, prevent ambiguous interpretations, ensure the consistent application of the rules, and create a transparent system for assessing and calculating the minimum corporate tax under the existing incentive regime in Croatia.

Issues and Implications

Effective tax rate and treatment of tax incentives

For the purposes of Pillar 2, the effective tax rate (ETR) is calculated as the ratio of adjusted covered taxes to qualifying profit or loss. Adjusted covered taxes include taxes reported in the accounting records (financial statements) of the constituent entity, relative to the revenue or profit achieved, and are then adjusted for specific items prescribed by law.[1] A constituent entity is any entity that is part of a multinational enterprise group or a large domestic group.

Pillar 2 distinguishes between two types of tax credits[2]:

Qualified refundable tax credit – a refundable tax credit paid in cash or cash equivalent to the constituent entity within four years from the date the constituent entity becomes entitled to the credit;
Non-qualified refundable tax credit – a tax credit that does not meet the criteria of a qualified refundable tax credit but may be refundable in full or in part.

It is clear that tax incentives under the Investment Promotion Act cannot be considered qualified refundable tax credits, as they do not involve cash payments to the entity. Currently defined incentives directly reduce the corporate income tax expense and are therefore included in the total adjusted covered taxes for Pillar 2 purposes. Consequently, the use of these incentives reduces the effective tax rate for Pillar 2 calculations, which often results in these entities being liable to pay a domestic top-up tax.

For the calculation of qualifying profit or loss of a constituent entity, qualified refundable tax credits under the GMCTA are treated as income (profit)[3].

If the incentives under the Investment Promotion Act were treated as qualified refundable tax credits, companies would record the regular corporate income tax expense without reduction, which would then be compared with the higher qualifying profit. A qualified refundable tax credit increases the level of qualifying profit while the tax expense remains unchanged. This method of calculation would result in a more favorable outcome for the effective tax rate compared with a non-qualified refundable tax credit.

Non-qualified refundable tax credits are not treated as income; as is the case under the Investment Promotion Act, they directly reduce the corporate income tax expense. This effectively nullifies the fiscal impact of the tax incentives and triggers a liability for the minimum global corporate tax – i.e., a top-up tax.

In practice, this model effectively neutralizes the fiscal incentives offered by the Croatian government, which formed the basis for investment decisions in Croatia.

For qualified refundable tax credits, the amount of the incentive increases qualifying profit, which is then compared with a slightly higher amount of covered taxes (assuming the incentive is treated as taxable income), resulting in a similar outcome to a scenario where the company does not utilize tax incentives.

If a qualified refundable tax credit were treated as taxable income, this would increase the covered taxes but would not affect the effective tax rate. Consequently, there would be no top-up tax liability. Since the paid tax would be reimbursed to the company in cash or cash equivalent, this would have a positive effect on the taxpayer's cash flow.

[1] GMCTA, Article 22
[2] GMCTA, Article 4
[3] GMCTA, Article 18

Conversely, if tax incentives are not considered qualified refundable tax credits, they directly reduce the corporate income tax expense, which can significantly lower the effective tax rate (even to 0%), thereby creating an obligation to pay top-up tax.

Simplified example of the impact on tax liability			
In EUR	No incentive	Qualified refundable tax credit	Non-qualified refundable tax credit
Covered taxes	3,600	3,960	1,600
Qualified (GloBE) profit	20,000	22,000	20,000
Incentives		2,000	2,000
Effective tax rate (ETR)	18%	18%	8%
Top-up tax rate	0%	0%	7%
Top-up tax amount	0	0	1,400
Net cash outflow (tax payment)	**3,600**	**1,960**	**3,000**

Deferred taxes and accounting treatment

The GMCTA stipulates that, in determining the top-up tax, the relevant OECD model rules and guidance on the application of Pillar 2 will be taken into account, to the extent that they are consistent with the provisions of the Act.

Under the GMCTA, covered taxes include taxes recorded in the financial statements of the relevant entity in respect of its income or profit. Therefore, in addition to the current income tax as reported in the corporate income tax return, covered taxes also include deferred taxes. However, deferred tax assets arising from tax incentives, as well as deferred tax expense associated with the utilization of such incentives, are excluded from the calculation of adjusted covered taxes for GMCTA purposes[4].

According to the OECD Commentary[5] (Section 9.1) and the GMCTA[6], deferred tax assets arising from tax attributes originating in periods prior to the transition year are taken into account when calculating the effective tax rate, in order to prevent distortions upon entry into the Pillar 2 regime. The transition year is defined as the first fiscal year during which a multinational enterprise group or a large domestic group becomes subject to Pillar 2 rules in a given jurisdiction[7].

Deferred tax assets related to the carryforward of tax credits, as recognized or disclosed in the financial statements of an entity, are treated as deferred tax attributes and included in the effective tax rate calculation in the transition year and subsequent years.

In conclusion, entities that recognized deferred tax assets arising from incentives in periods prior to the first year of Pillar 2 application will be able to continue using these assets in future periods. Conversely, companies that qualified for incentives in the same period but did not recognize deferred tax assets will generally not benefit from their positive impact going forward, subject to certain exceptions. As a result, different accounting approaches applied in prior years may lead to divergent positions and tax burdens under the Pillar 2 framework.

We emphasize this matter in order to highlight the importance of the interaction between the GMCTA and the OECD Commentary in determining the treatment of tax incentives. We therefore recommend

[4] GMCTA, Article 24 5.e
[5] OECD (2024)
[6] GMCTA, Article 53
[7] GMCTA, Article 53

that our understanding of the interpretation and application be confirmed and clarified in the implementing Regulation to the GMCTA, and that possible future solutions also be considered.

For additional information, please contact: American Chamber of Commerce in Croatia

Andrea Doko Jelušić | Executive Director

T: 01 4836 777 | E: andrea.doko@amcham.hr