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

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Recommendations for the Tax System Reform in 2025



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Introduction

American Chamber of Commerce in Croatia (AmCham) welcomes the previous tax reforms which have, through a series of rounds, continuously contributed to relieving the burden on employees and businesses, improved the functioning of the system, and increased the competitiveness of the Croatian economy. Despite the progress made, we believe there is still room for further improvement of the tax system in order to additionally encourage investment, facilitate business operations, and ensure the stability of public finances.

In this opinion, AmCham sets out recommendations for the further reduction of the tax burden aimed at further attracting investment and greater competitiveness of Croatian employers in attracting and retaining the workforce. The focus is on reducing the tax burden on labor, creating a more stimulating framework for investment in research and development, strengthening legal certainty, as well as on administrative simplification and digitalization.

Among the European Union member states, Croatia has one of the highest salary growth rates; however, continuous inflationary pressures are slowing down the growth of citizens' purchasing power. In 2025, we should also begin to see the first effects of the introduction of the national Real Estate Tax. AmCham supports the announced broadening of the tax base in a way that enables further reduction of the tax burden on labor.

Personal income tax and mandatory contributions

Despite significant progress in reducing the taxation of labor, AmCham believes that there is more room for further reduction to make Croatia more competitive compared to other Central and Eastern European countries, with a goal of retaining the workforce in Croatia and further increasing citizens' purchasing power.

Croatia has the potential to be even more competitive in terms of the overall tax burden on labor, particularly in the segment of higher salaries. AmCham welcomes previous personal income tax reductions, especially increasing the threshold for entering the higher tax bracket to EUR 5,000 gross, but also sees the need for further reductions of the burden imposed on labor through taxes and contributions.

Further reducing the tax burden on labor would contribute to the opening of regional centers of international companies in Croatia since reducing the burden imposed on salaries by public contributions would make it more affordable for undertakings to remunerate the best managers. In this way, Croatia would position itself as a regional business center, with EU membership and its geographical location as contributing factors, along with membership in the Eurozone and the Schengen Area from 2023.

AmCham's proposal

We propose the amendment of the Income Tax Act and Ordinance, the Compulsory Health Insurance Act, and the Pension Insurance Act.

- **In the short term, AmCham suggests:**

*Increasing the personal deduction (that is, the non-taxable part of income) to EUR 970;
Applying the maximum monthly and annual bases in the calculation of healthcare insurance contributions.*

- **In the mid-term, AmCham suggests:**

Reducing the tax rate from 20% to 10% and from 30% to 20%

Increasing the personal deduction

The program of the Government of the Republic of Croatia is focused on simplifying the tax system, broadening the tax base, and reducing the burden on citizens and entrepreneurs. The government has increased the non-taxable portion of income, but AmCham proposes further relief due to inflationary pressures, specifically suggesting an increase of the personal deduction to EUR 970, which is equal to the minimum salary in Croatia. This measure would reduce the tax burden and increase citizens' net income, making Croatian employers more competitive in retaining the workforce.

It would also open up space for employers of persons with net income of up to EUR 970 to consider increasing salaries as the net effect for the employee and the gross effect for the employer would be more favorable than in the situation where a 20% personal income tax would have to be applied to the part of the increased salary if personal deductions remained the same. The social effects of this measure require no further explanation.

Application of the maximum monthly and the maximum annual bases in the calculation of healthcare insurance

AmCham proposes to consider reducing mandatory insurance contributions, considering the current situation in which collected contributions are insufficient to fund the pension and healthcare systems, which are instead funded through tax revenues. Although a significant reduction in contribution rates currently does not seem likely, AmCham sees valid reasons for limiting the amount of health and pension insurance contributions in future reforms. Unlike pension insurance, which already has a limit on the maximum contribution base, health insurance contributions do not have such a limit. This particularly affects employers of highly qualified workers, as they pay 16.5% in contributions on the full salary amount, while the rights under the health insurance system are limited for various reasons:

- Payment of a supplemental contribution is required for full healthcare service;
- The healthcare service is often not available at a time when it is needed – insufficient capacity of the public healthcare system (waiting lists);
- Certain drugs and treatments are not covered by the Croatian Health Insurance Fund (HZZO).

Employees are entitled to salary compensation during sick leave, with the employer covering the cost of sick leave up to 42 days. This puts employers at a disadvantage, as they are required to compensate employees who are unable to work while simultaneously paying mandatory contributions on the full amount of the compensation. AmCham, therefore, proposes limiting the required health insurance contributions, similar to the pension insurance system, to six average gross salaries.

It is expected that this solution would not significantly impact the Croatian Health Insurance Fund's budget, as it applies to a small number of workers with annual income exceeding EUR 100,000. It is also expected that this limit could help attract and retain the workforce in Croatia, as reducing costs for employers would allow for an increase in employee salaries. In the long term, this could result in increased consumption and higher state revenues through personal income tax and VAT.

- ***In this regard, AmCham proposes the following:***

Introducing a limit on the contribution base for health insurance in the Contributions Act, similar to the existing limit for pension insurance based on generational solidarity. Setting the limit at six average gross salaries would reduce the financial burden on employers of highly qualified workers while not significantly impacting the Croatian Health Insurance Fund's revenues.

Reducing the tax rate from 20% to 10% and from 30% to 20%

AmCham believes that reducing income tax rates from 20% (i.e., 15%-23%, depending on the city/municipality) to 10% and 30% (i.e., 25%-33%, depending on the city/municipality) to 20% would have an additional strong positive impact on the Croatian economy and would increase the purchasing power of a large number of workers.

This measure would ensure that, with the same cost for employers, employees receive higher net income, which increases their economic power and capacity for consumption and ultimately increases their standard of living (especially now, in conditions of significant inflation).

AmCham proposes a reduction of the 24% personal income tax rate applicable to capital income from allotment of shares, income on the basis of property rights, and disposal of assets to 12%, thus equaling it to the rate applicable to other capital and property income (dividends, interest, lease, etc.).

Overview of tax rates and contributions in Croatia and competing markets

Overview of tax systems in 2025	Croatia	Bulgaria	Czech Republic	Romania	Serbia	Slovakia
Corporate income tax rate (general)	10% – for generated revenue up to EUR 1,000,000.00 18% – for generated revenue equal to or greater than EUR 1,000,000.00	10%	21%	16%	15%	21% - for generated revenue up to EUR 5,000,000.00 24% - for generated revenue equal or higher than EUR 5,000,000.00 15% for micro-undertakings whose taxable income does not exceed EUR 100,000 per year
VAT rate (general)	25%	20%	21%	19%	20%	23%
Personal income tax rates (salaries)	15%-23% depending on the local government (25%-33% for the amount of taxable income above EUR 60,000.00)	10%	15% (23% for income higher than EUR 67,017.95)	10%	10% (15% for income higher than EUR 83,170.16)	19% (25% for annual income exceeding EUR 48,441.43) 15% for micro-undertakings whose taxable income does not exceed EUR 100,000 per year
Salary contributions	Employee: 20% (partially limited), especially the reduction of contributions for salaries between EUR 700 and EUR 1,300 Employer: 16.5% (unlimited)	Employee: 13.78% (limited) Employer: 18.92% to 19.62% (limited)	Employee: 11.6% (partially limited) Employer: 33.8%* (partially limited)	Employee: 35% (unlimited) Employer: 2.25% + 4% for difficult working conditions or 8% for special working conditions (unlimited)	Employee: 19.9% (limited) Employer: 15.15% (limited)	Employee: 13.4% (partially limited) Employer: 36.2% (partially limited)

Source: KPMG, April 2025

Effects of changes to personal income tax and mandatory insurance contributions proposed by AmCham are shown in the table below:

Effects of the proposed changes to personal income tax and mandatory insurance contributions								
	Calculation of personal income tax and mandatory contributions according to regulations currently in effect				Calculation of personal income tax and mandatory contributions in accordance with the proposed changes			
	Salary 1	Salary 2	Salary 3	Salary 4	Salary 1	Salary 2	Salary 3	Salary 4
Income	1.300,00	3.300,00	6.600,00	13.000,00	1.300,00	3.300,00	6.600,00	13.000,00
Total tax	88,00	408,00	936,00	2.572,72	7,00	167,00	431,00	1.474,48
Net income	952,00	2.232,00	4.344,00	8.269,68	1.033,00	2.473,00	4.849,00	9.367,92
Healthcare insurance contribution 16.50%	214,50	544,50	1.089,00	2.145,00	214,50	544,50	1.089,00	1.780,02
Total cost for the employer (Gross 2)	1.514,50	3.844,50	7.689,00	15.145,00	1.514,50	3.844,50	7.689,00	14.780,02
Effect for the worker								
Net salary increase					81,00	241,00	505,00	1.098,24
Net salary increase percentage					8,51%	10,80%	11,63%	13,28%
Effect for the employer								
Salary cost reduction					0,00	0,00	0,00	364,98
Salary cost reduction, percentage					0,00%	0,00%	0,00%	-2,41%

Tax relief for workers' health

AmCham welcomes introducing the option of tax-free payment of supplementary and additional health insurance premiums for workers up to EUR 500 annually per worker and proposes further relief. Such tax relief could be used by taxpayers who themselves bear the burden of the cost of additional and supplementary health insurance on an annual basis by submitting the ZPP-DOH form. This would further encourage the use of private health services, thereby relieving the burden on the public health system. AmCham believes that with the introduction of this measure, the administrative burden on the Tax Administration should not be significant, as data on paid insurance premiums can be easily collected from insurance companies. An example of a country applying tax breaks to health insurance premiums is Portugal, where the health insurance premium is used as a tax deduction in the calculation of personal income tax. The deduction is limited; it is determined depending on other tax breaks and the level of taxable income, with the maximum tax break amounting to EUR 1,000.

We also propose to increase the personal deduction for actual healthcare expenses of up to EUR 3,000, provided that these costs have not been paid through any form of health insurance or funded by donations. This amount is reasonable at the current moment, considering the fiscal power and income of citizens. Taxpayers would exercise the right through the ZPP-DOH form by presenting invoices made out to them and issued by authorized healthcare institutions. This relief would be specifically designed to benefit citizens whose employers pay higher health insurance contributions without significantly impacting the state budget.

AmCham proposes stimulating employers through tax-free payments for certain costs intended for workers' health. According to the Explanation of the financial plan of the Croatian Health Insurance Fund for 2023 and the projection of the plan for 2025, which is publicly available, CHIF revenues from contributions should amount to approximately EUR 3.7 billion this year. In order to reduce the pressure on the cost side of the CHIF (in terms of payments for sick leave, treatment, medication, etc.), AmCham proposes non-taxable benefits for certain costs that employers would cover, such as the costs of certain specific medical examinations, medication costs, but also the costs of some sports and health activities, which would reduce sick leave, or generally improve the health of the working population (e.g., sports activities, gyms, etc.). In this way, the employer would increase work efficiency and reduce absenteeism, workers would receive activities whose costs they finance

themselves, and consequently, the pressure on the healthcare system would be reduced (both in terms of costs and in terms of capacity).

AmCham's proposal

We propose amendments to the Personal Income Tax Act and the Ordinance.

- **AmCham proposes the following:**

Increasing the maximum annual tax relief for additional and supplementary health insurance to EUR 1,000.

Increasing the personal tax deduction for actual healthcare expenses to EUR 3,000 per year.

Introducing non-taxable reimbursements for specific health-related expenses incurred by workers, covering costs paid by employers.

Non-taxable income

AmCham welcomes the increase in tax-free amounts of bonuses and benefits, but suggests additional and continuous increases in such items, especially those that have remained unchanged for a long time and have been eroded by inflation.

In line with the trends of developed economies, Croatian employers are increasingly organizing *team-building activities*. Joint activities of business colleagues lead to better development of their team spirit and a sense of belonging to the team and contribute to better mutual knowledge, trust, understanding, and respect, which results in significantly better individual and collective business results. Paying for the costs of this type of activity is subject to taxation, representing a significant cost to employers, which is why many choose not to organize recreational activities for employees or scale down their scope and quality to reduce costs. Organizing team building is standard in modern organizational and human resources management, and taxing recreational activities for employees in Croatia makes it difficult to align with contemporary business trends. AmCham believes that making team-building activities non-taxable would have multiple positive effects on employees' mental and physical well-being, as well as on overall productivity.

Since the introduction of the Croatian Tourist Card in 2020, the non-taxable amount has been increased to EUR 400; however, this has not kept pace with inflation or the rising cost of tourism services. Tax Administration's data for 2023 shows that the use of this instrument accounts for only 0.07% of total non-taxable receipts, indicating its limited attractiveness. The prices of accommodation and hospitality services have increased at a rate several times higher than general inflation, thereby reducing the real value of this benefit. In order for the instrument to fulfill its purpose of encouraging domestic tourism spending, AmCham proposes to strengthen it. Specifically, we propose increasing the non-taxable amount to EUR 2,000 per year.

Further tax reform will also have to take into account contributions (pension and health). However, through the mechanisms available in personal income tax, such as non-taxable treatment of certain expenditures, the desired results can be achieved in a relatively short period of time.

AmCham's proposal

We propose amendments to the Personal Income Tax Act and the Ordinance.

- **AmCham proposes the following:**

Further increasing the non-taxable amounts of bonuses and benefits.

Prescribing non-taxable amounts per worker for team building.

Increasing the non-taxable portion of compensation received through the Croatian Tourist Card to EUR 2,000 per year.

Level of per diems in Croatia

Over the past few years, inflation in Croatia, as in many other European countries, has led to a significant increase in the cost of living. The biggest impact on those costs came from rising food and beverage prices.

In 2023, according to data from the Croatian Bureau of Statistics, based on the main ECOICOP classification groups, the highest average price increases were recorded in the categories Restaurants and Hotels, by 14.8%, and Food and Non-alcoholic Beverages, by 12.7%. This increase continued into 2024, when, according to the same source, the highest annual increase in consumer prices was again recorded in the categories Restaurants and Hotels, with an average increase of 9.6% compared to 2023, and Food and Non-alcoholic Beverages, with a 5.1% increase. The increase continued in 2025.

This increase in prices has posed a challenge for both employers and employees in covering the costs of food, beverages, and other minor expenses on business trips with the EUR 30 non-taxable per diem for domestic travel. Many employees express dissatisfaction to their employers, stating that the amount of EUR 30 is too low to cover all the expenses that the per diem is intended for.

AmCham's proposal

We propose amendments to the Personal Income Tax Act and the Ordinance.

- **AmCham proposes the following:**

We propose that the Tax Administration increase the amount of non-taxable per diems for domestic business trips from the current EUR 30 to EUR 50.

Allotment of shares and equity interest purchases

As of January 1, 2024, all income from bonuses granted through share allotments and equity interest purchases has the same tax treatment, i.e., it is considered investment income in kind subject to a tax rate of 24%. AmCham welcomes these changes. However, practice has revealed some illogicalities regarding the prescribed rate and the methodology of calculating the income in kind, which require regulation.

Regulations state that income from participation in an option plan is considered net income in kind, so the effective rate, due to the prescribed requirement for conversion to gross, amounts to 31.58%. As this is a significantly higher actual rate than the one apparently prescribed by law (a single rate of 24%), AmCham proposes that income from option plans be considered gross income from capital.

Additionally, a special rate on income from capital applies only to optional remuneration (if excluding the rate for the exclusion of assets and the use of services at the expense of the company, which is considered a penalty rate). Given that these are related types of income, AmCham believes that, in this sense, it is necessary to apply the same tax rate. Also, a lower tax burden would represent an important tool for Croatian employers in retaining and rewarding their workers in Croatia.

AmCham's proposal

We propose amendments to the Personal Income Tax Act and the Ordinance.

- **AmCham proposes the following:**

Specifying that the value of said income is considered gross income.

Equalizing the tax rate on optional remuneration with the tax rates of other types of income from capital, such as dividends, interest, and capital gains of 12%.

Corporate income tax

Introduction of corporate income tax relief based on salary costs

Over the past five years, employers have been facing rising salary costs, which poses a significant challenge to their business operations. According to data from the Croatian Bureau of Statistics, in the period from 2020 to 2024, the cost of the average gross 1 salary increased by 48.9%. This trend has been primarily driven by inflation, which has continuously raised the cost of living, prompting employees to seek higher salaries to maintain their standard of living. An increase in the prices of basic necessities, housing costs, and energy has directly contributed to the financial pressure on households.

In addition to inflation, global economic changes, disruptions in supply chains, and increased demand for skilled labor have made controlling salary costs even more difficult. Changes in legislation concerning workers' rights and minimum salaries have also required employers to make additional budget adjustments, which in some cases has led to excessive and unsustainable pressure on financial performance and business operations.

AmCham's proposal

We propose introducing new provisions into the Corporate Income Tax Act and Ordinance.

- **AmCham proposes the following:**

Introducing a tax relief allowing employers to reduce the corporate income tax base by 50% of salary costs (gross 2).

Proposal to improve incentives for investment in research and development

Investments in research and development bring multiple benefits to the economy, not only through the development of new technologies and products within individual industries but also through broader knowledge transfer and the promotion of innovation throughout society. Empirical research shows that the social returns on investment in research and development are, on average, twice as high as private returns, confirming the need for public intervention through tax incentives.

Additionally, experiences from OECD countries in 2023 show that tax incentives for research and development had a positive impact on improving economic indicators. Data from eleven countries show positive effects of tax incentives on sales, employment, added value, salaries, and labor productivity. Although the intensity and significance of these effects vary between countries and depend on specific economic indicators, the overall results indicate a positive trend.

In the context of digital transformation, global competition, and the need to strengthen the technological capacities of the economy, it is crucial to develop an effective and internationally aligned system of tax incentives that will motivate companies to increase investments in scientific research and innovation.

According to OECD estimates of tax support costs based on corporate income tax for 2021, government expenditure on research and development (R&D) and innovation was very low in most OECD member countries and European Union economies. In that year, or in the most recent year for which data was available, such expenditures amounted to less than 0.01 percent of GDP in nearly half of the countries covered, that is, in 10 of the 23 that provided data. When observed as a share of GDP, the highest level was recorded in Cyprus, where it amounted to 0.72 percent, followed by 0.23 percent in Israel and 0.22 percent of GDP in the Netherlands. In absolute amounts, expressed in millions of US dollars, the highest cost was recorded in the United States, with approximately 23,500 million dollars, followed by the Netherlands, with around 2,600 million dollars, and the United Kingdom, with approximately 2,100 million dollars. As expected, absolute subsidies are higher in larger economies such as the United States.

Investments by Croatian businesses in research and development (R&D) have been at a very low level for many years compared to the European average.

Given the trends in digital transformation, global competition, and the need to strengthen the technological capacities of the economy, it is essential to ensure an effective incentive system that will motivate companies to make greater investments in scientific research.

Objectives of the proposed measures

- To increase the number of businesses implementing R&D projects
- To increase the overall value of investments in research and development
- To strengthen the innovation potential of the Croatian economy

Special emphasis is placed on encouraging the private sector to develop its own research, development, and innovation capacities in line with the strategic documents of the Government of the Republic of Croatia.

Subsidies are available to all categories of businesses — micro, small, medium, and large companies. It should be noted that funds for research and development are already available to small and medium-sized companies through European programs, and it would be crucial to provide research and development incentives to large companies through national programs.

The legislation that defines this area includes Commission Regulation (EU) No. 651/2014 General Block Exemption Regulation), Act on State Aid for Research and Development Projects and Ordinance on state aid for research and development projects.

AmCham's proposal

Types of research and development activities and intensity of aid with AmCham's proposals

Aid amounts by type of research activity					
Type of research	Cost eligibility	Intensity of aid	Max. amount of aid per project per company in EUR	Suggested new max. amount of aid per project per company in EUR	Maximum total amount of aid per project / million EUR
Base research	up to 100%	400%	300,000.00	600,000.00	up to 55
Industrial research	up to 50% (possibility of increase up to 80%)	300%	200,000.00	400,000.00	up to 35
Experimental development	up to 25% (possibility of increase up to 80%)	250%	100,000.00	200,000.00	up to 25
Feasibility studies	up to 50% (possibility of increase for SME)	300%	50,000	100,000	up to 8.25

• AmCham proposes the following:

In addition to the proposed maximum aid amounts listed in the table, AmCham further proposes:

1. Better presentation of aid

We propose creating visually clear marketing presentations of the available support opportunities and conditions on the websites of the Ministry of Economy and the Ministry of Finance, following examples of good practice from Estonia. Below is an example of a website: <https://investinestonia.com/business-in-estonia/incentives/our-grants/>

2. Increase of the amount and the intensity of aid

It is necessary to increase the maximum aid amounts and allow for more flexible definitions of eligible costs, especially for more complex and multiannual projects.

3. Introduction of direct financial aid

We propose the introduction of direct financial aid for the following:

Costs of creating new jobs related to the implementation of research and development projects
Costs of training and education of employees involved in research and development activities

In order to avoid the negative impact of Pillar II of the OECD tax framework reform on R&D tax credits, which introduces a global minimum corporate income tax rate of 15% for large multinational companies with consolidated revenues exceeding EUR 750 million, Croatia should consider reallocating incentives towards refundable subsidies, which are treated more favorably under Pillar II.

Widening the scope of the exemption from taxation of income derived from investments in subsidiaries

Rules on the exemption from taxation of investment income ("PEX rules") aim to avoid or reduce double taxation of dividends and profit shares, as well as capital gains earned by a parent company from investments in its subsidiaries.

Current Croatian regulations prescribe exemptions from taxation of income from dividends and profit shares and increases in the value of equity interest in the accounting records due to the use of the equity method. Capital gains based on the disposal of shares and equity interest, defined as the difference between the market price of the shares/equity interest and the initial investment cost, are taxed for taxpayers of the corporate income tax at the standard corporate income tax rate. In that way, the profit paid out has a more favorable tax treatment and is the preferred option compared to retaining the profit for further investment. This also discourages foreign investors from basing holding companies in the Republic of Croatia. We would like to point out that there are legal prerequisites for full exemption from taxation of investment income since Article 9, paragraph 4 of the Ordinance on corporate income tax prescribes that investment income will not be taxable if such tax would result in double taxation of the same income. The same is also prescribed on the expenditure side; it is not tax-deductible if that would result in a double deduction or double tax loss. Additionally, under Croatian regulations, individual investors are in a more favorable position than institutional investors, as capital gains of individuals from the sale of financial assets held for a period longer than two years are not subject to taxation.

The positive effects of retaining profits for further investment include making profit distribution a less attractive option compared to reinvestment, encouraging investors not to distribute the income of subsidiaries but to use it for further investments, and potentially attracting investors to establish investment companies for regional investments in Croatia more often. These holding companies would be liable for corporate income tax and other taxes; they would hire locally for management and ownership roles, which would have a positive effect on the budget through the payment of income tax and contributions.

On the other hand, the implementation of these measures should not have a significant negative impact on state budget revenues. Any unfavorable impact on the budget may be additionally mitigated by restricting the application of the capital gains tax exemption when equity interests are sold by prescribing conditions for its application. That would limit the number of companies qualified for that exemption and prevent misuse.

AmCham's proposal

We propose introducing new provisions into the Corporate Income Tax Act and Ordinance.

- **AmCham proposes the following:**

Expanding the exemption from taxation of capital gains earned through the sale of equity interest in subsidiaries.

Including new provisions in the Corporate Income Tax Act whereby, in addition to income from dividends and equity interest, corporate income determined as the difference between the sale price and the cost of investment in the particular subsidiary would be exempt from tax and the corporate income tax base reduced. Accordingly, capital loss from a sale could not be recognized as a tax-deductible expense.

Therefore, we propose to add item 6 to Article 6, paragraph 1, to read as follows:

"Article 6

(1) The tax base referred to in Article 5 of this Act shall be reduced:

.....

6 by any amount of capital gains realized by a shareholder or a company member through the sale of shares and equity interest in companies where they hold, before the sale, at least xx% of shares or equity interest or voting rights over a continuous period of at least xx months. Capital losses generated on the same grounds shall not be recognized for taxation purposes."*

General Recommendations

Tax authorities as partners to the business community

AmCham members still report their impression that tax inspectors are focused on looking for errors in order to penalize businesses. Inspectors and the Tax Administration should position themselves as economic advisors. If it is clear that the error was unintentional, it is sufficient and far more useful to issue a warning with a plan to rectify the error. AmCham calls for the Tax Administration to make further efforts in terms of preventive measures instead of imposing additional tax liabilities and administrative fines for minor omissions.

The procedure for obtaining a special tax status (the "procedure") aims to promote the voluntary fulfillment of tax obligations and reduce the administrative burden. The regulations govern the procedure that every taxpayer must follow in order to achieve a special tax status. However, it is unclear exactly what information the Tax Administration can request from the taxpayer. This could potentially equalize the process with regular tax supervision, which is not the goal of this procedure.

AmCham's proposal

We propose changes to the General Tax Act.

- **AmCham proposes the following:**

Prescribing the possibility of issuing a warning with a correction plan in cases of incorrect determination of tax obligations by taxpayers that result in insignificant fiscal effects. Introducing a materiality threshold and prescribing the allowed frequency of applying this concept per individual taxpayer (e.g., once within 3 fiscal periods, with the condition that in the case of repeated errors, a penalty of XX is imposed on the taxpayer).

Prescribing the documentation and scope of information that the Tax Administration may request from the taxpayer and the deadline for concluding an agreement on voluntary fulfillment of tax obligations.

Establishing active cooperation with other tax administrations within the EU regarding the implementation of the procedure for obtaining special status.

Establishing the obligation to hold regular meetings between the taxpayer and the Tax Administration on a quarterly or semi-annual basis following the approval of special tax status.

Opinions of the Central Office

Members of AmCham consider legal certainty very important for their business activities in Croatia. Consistent practices and predictability in the actions of tax authorities would significantly contribute to legal certainty and, consequently, to the level of foreign investment. In Croatia, there is a concept of binding and non-binding opinions. Taxpayers do not often choose to request binding opinions because they are available only for future transactions. Non-binding opinions issued by the Central

Office are usually provided to help taxpayers understand the implementation of tax laws to specific situations. These opinions are issued solely as guidelines and are not considered legally binding by the Tax Administration, which makes them difficult to use as a defense in tax procedures and disputes. It is noticeable that tax inspectors do not act in accordance with them during tax audits. Additionally, AmCham members state that the process of issuing them is slow and unpredictable.

AmCham's proposal

We propose changes to the General Tax Act or Tax Administration Act.

- **AmCham proposes the following:**
Restoring a provision to the Tax Administration Act, prescribing that the opinions, instructions, and operational methodologies issued by the Central Office be binding on all organizational units of the Tax Administration.
Defining legal deadlines for issuing non-binding opinions.

Voluntary reporting of undeclared tax obligations

AmCham welcomes the introduction of the possibility of voluntarily reporting undeclared tax liabilities related to income earned abroad by natural persons under Article 12b of the General Tax Act. However, AmCham believes that the concept of self-reporting should be extended to all types of public expenses for both legal and natural persons.

AmCham's proposal

We propose to amend Article 12.b of the General Tax Act to expand the suggested scope of voluntary reporting of tax obligations.

- **AmCham proposes the following:**
Prescribing the possibility of voluntary reporting of tax obligations for all types of public expenses (including taxes, contributions, excise duties, customs duties) for both legal and natural persons, as is common in many neighboring countries, such as Slovenia.

Foreign income

In recent years, the number of tax returns, including foreign income, has significantly increased. This trend is the result of several parallel phenomena, such as the return of Croatian emigrants, the permanent settlement of foreign tax residents in Croatia, the increasing number of Croatian residents working in multiple countries, and the growing number of workers being sent to work abroad.

This leads to increasingly complex tax situations, which require specific knowledge in the field of international taxation, particularly regarding the correct calculation of foreign income and the determination of tax residency. All of this results in congestion within the system due to the increased number of appeals and complaints, delays in tax collection, and the burden on the Central Office with numerous operational inquiries.

AmCham's proposal

We propose implementing the existing provisions of the Tax Administration Act and forming mobile teams to train and support Tax Administration staff.

- **AmCham proposes the following:**
Forming mobile teams – specialized teams of experts in the field of international taxation to relieve the system and develop the Tax Administration staff who would be tasked with providing operational support to regional offices.

Delivering annual financial reports

Currently, different forms and deadlines are applied for submitting annual financial reports, depending on the regulatory body to which the individual reports are submitted. Due to their scope, we will not list in detail all the documents that should be submitted (in most cases, these are financial reports), but we will mention the deadlines to illustrate the complexity of the reporting.

Croatian Financial Agency (FINA) – The deadline for submitting the annual financial report to FINA for public release and statistical purposes is by April 30 and June 30, respectively, of the current year for the previous year.

TAX ADMINISTRATION – The deadline for submitting the Corporate Income Tax Return is 4 months after the end of the fiscal period for the previous year.

CROATIAN FINANCIAL SERVICES SUPERVISORY AGENCY (HANFA) – Quarterly consolidated and unconsolidated financial reports must be submitted within 30 days after the end of the quarter.

ZAGREB STOCK EXCHANGE – Quarterly consolidated and unconsolidated financial reports must be submitted within 30 days after the end of the quarter, while audited annual consolidated and unconsolidated financial reports must be submitted by April 30 of the current year for the previous year.

COMPANY WEBSITES – Both unconsolidated and consolidated financial reports are additionally published on the company website.

AmCham's proposal

We propose introducing new legal provisions that will simplify reporting procedures and establish a unified digital system for the submission of annual financial reports. This includes the Accounting Act, the Corporate Income Tax Act, the Companies Act, the Capital Market Act, etc.

- **AmCham proposes the following:**

We propose developing a unified form for the submission of annual financial reports and harmonizing the submission deadlines.

We further propose introducing a centralized, unified digital system for the submission of annual financial reports to all relevant regulatory bodies (HANFA, ZAGREB STOCK EXCHANGE, FINA, TAX ADMINISTRATION).

Paying the Fee for the General Useful Functions of Forests (OKFŠ)

The current system of charging and paying the fee for the General Useful Functions of Forests (OKFŠ) at the Ministry of Agriculture, Forestry and Fisheries does not provide taxpayers with insight into the status and methodology. Annual reports can be submitted via a PDF form to the general email address okfs@mps.hr or electronically through the *Compulsory Charges Payment Calendar*, which is available through the e-Citizens system. Regardless of the method of submitting the annual reports, taxpayers face challenges due to the lack of transparent access to the detailed account of charges and payments, as well as the unclear methodology and timing of the charges.

AmCham believes that transferring the payment of this obligation to the e-Tax Administration system would achieve a higher level of transparency, improved efficiency, and cost reduction.

AmCham's proposal

The payment of the fee for the general useful functions of forests is regulated by Articles 65 to 67 of the Forestry Act

- **AmCham proposes the following:**

We propose that the obligation for charging and payment of the fee for the general useful functions of forests be transferred to the e-Tax Administration system, where all tax obligations of taxpayers are recorded and monitored.

Digitalization of the Withholding Tax Payment Process

When calculating and reporting withholding tax, it is necessary to collect various documents as prescribed by the law and/or the double taxation treaties that the Republic of Croatia concluded with other countries/tax jurisdictions. The process of reporting and obtaining a certificate of withholding tax paid to the Tax Administration is currently entirely manual and includes the following: reporting at the level of each paid invoice, annual reporting of all invoices subject to withholding tax, the Request Form for the refund of overpaid tax, and submission of documentation related to the payment of withholding tax abroad.

AmCham believes that the digitization and transfer of withholding tax payments to the e-Tax Administration system would lead to greater efficiency with reduced administrative burden, improved transparency and security, enhanced user support, and cost savings.

AmCham's proposal

The calculation and payment of withholding tax is regulated by Articles 31 to 31.f of the Corporate Income Tax Act and Articles 49 to 52 of the Ordinance on corporate income tax.

- **AmCham proposes the following:**

Communication and submission of documentation related to the payment of withholding tax abroad and in Croatia on behalf of third parties should be transferred to the e-Tax Administration system.

Disposal and Write-Off of Assets and Small Inventory

The existing regulations on VAT and waste management are not harmonized. According to the Ordinance on VAT, for tax recognition of write-offs, certified additional documentation is required with precise details about the type and quantity of assets being disposed of. The Waste Management Ordinance and Act do not include such a requirement. A company that fails to provide the necessary documentation for tax recognition of a write-off is required to increase the corporate income tax base by the amount of the expense increased by VAT.

In practice, this leads to problems because authorized waste collectors are not obligated to certify documentation specifying the type and quantity of the assets being disposed of; they are only required to certify the Accompanying Form. It contains the waste code and the total quantity in kilograms but not a detailed description of the fixed assets being disposed of. A taxpayer who wishes to ensure adequate proof of proper asset disposal may request the presence of a Tax Administration officer. For this purpose, the taxpayer is required to send an invitation to the Tax Administration officer within the prescribed deadline (at least 7 working days prior to the scheduled disposal date). The invitation must specify the date and time of the disposal, as well as a detailed list of assets subject to disposal. The Tax Administration officer forwards the invitation to the Audit Service (a body within the Tax Administration), which then decides (based on the provided specification) whether or not to conduct an on-site inspection. The taxpayer is not informed of the decision made. Regardless of whether the Tax Administration officers conducted an on-site inspection during the disposal of assets or not, the taxpayer must submit the Accompanying Form to the tax officer. This fulfills the company's obligation, and the disposal of the goods is considered a tax-deductible expense.

AmCham's proposal

We propose the harmonization of regulations and, consequently, the obligation for authorized waste collectors pertaining to the legislation of the Ordinance on VAT, the Corporate Income Tax Act, and the Waste Management Act and Ordinance.



- **AmCham proposes the following:**

Harmonization of regulations – amending the Ordinance on VAT so that only the Accompanying Form, certified by the authorized waste disposer, would be sufficient for tax recognition of write-offs, without the need for additional specification of the quantity and type of assets being disposed of.

Expansion of the obligations of authorized waste collectors – amending the Waste Management Act and Ordinance to require authorized waste collectors to certify the additional specification of assets being disposed of, including their type and quantity.

Additional recommendations

Administrative measures to facilitate the business of undertakings and the Tax Administration

Businesses often complain about excessive bureaucracy and numerous administrative requirements. AmCham supports the digitalization and automation of the Tax Administration system, as well as the elimination of unnecessary forms, which would increase transparency, simplify processes, and reduce paperwork. AmCham also advocates for reducing the number of forms and simplifying the remaining ones, as well as for minimizing the number of codes within forms (e.g., the Croatian VAT form contains more than 20 fields, while the UK form has only 5-7). It is important to continue with measures that improve the investment environment by simplifying business operations.

Extending the period of tax loss carryforward

Existing rules on the five-year loss carryforward do not encourage long-term investments, especially not high-tech investments. We propose extending this period in order to align with best practices in Europe and the rest of the world. For example, Austria has a period of 7 years, while the US has 20 years. AmCham deems that the loss carryforward period in Croatia should be extended from 5 years to 10 years.

Extension of the deadline for submission of personal and corporate income tax returns

Short annual deadlines for submitting personal and corporate income tax returns often lead to incomplete submissions due to a lack of information. Many other countries allow longer deadlines, and if it is necessary to obtain information from abroad (for both natural and legal persons), it is often not possible to do so within the prescribed deadline due to the longer submission periods in those countries. This problem causes additional paperwork that burdens taxpayers, who must make corrections, and tax administration officials, who process information multiple times. To reduce unnecessary paperwork, AmCham proposes extending the deadlines for submitting these tax returns.

AmCham proposes introducing March 31 as the single deadline for submissions for the previous year. We propose to keep the deadline for submission of information on income from abroad and accounting of tax paid abroad unchanged (November 30), and we propose the introduction of an option of an "automated" request to extend the deadline for the submission of the information to the Tax Administration if the data from abroad is not available by March 31 (e.g., by simply checking an e-Tax Administration system box to request the extension).

We propose extending the deadline for filing corporate income tax returns to six months after the end of a financial year (i.e., to be equal to the deadlines for submitting annual financial reports for publication). We also propose extending the deadline for submitting the corporate income tax return in the case of status changes (currently 30 days from the change, proposed extension to 90 days).

Tax liability maturity for natural persons

Based on Article 54(1) of the Income Tax Act, the Tax Administration, applying a special procedure for determining the annual income tax, is obliged, based on the records and data at its disposal, that is, data submitted by the taxpayer, to determine the taxpayer's annual income realized in the tax period and the difference of tax and surcharge for payment or for refund, about which it issues a temporary tax decision.

In practice, it sometimes happens that temporary tax decisions issued on the basis of a special procedure do not fully reflect the actual situation, despite the available data. Although taxpayers have the right to appeal, the current decision remains enforceable, which can lead to financial burdens, especially when it involves larger amounts. A similar situation can occur with voluntary declarations of foreign income, where – due to the novelty of the concept and inconsistent practice – decisions are made without additional examination procedures, and the appeal does not suspend the enforcement. In order to further strengthen legal certainty and trust in the system, AmCham proposes that the law be amended to allow a suspension of enforcement in cases where an objection or appeal has been filed against a decision until a final decision is made.

Changes to the tax treatment of “income in kind”

The Personal Income Tax Act stipulates that an income in kind is considered a net amount, which must be “grossed up,” resulting in a very high effective tax burden – even exceeding 125%. This discourages employers from offering additional benefits to employees, as the cost becomes too high.

At the same time, such incomes are not attractive to employees, as they pay more in taxes and contributions than the actual value of the income itself. Other European countries, such as Hungary, Austria, and Slovenia, treat such incomes as gross value, which reduces the tax burden. AmCham proposes an amendment to the act whereby the market value of an income in kind would be considered the gross amount for tax purposes.

Alignment of VAT treatment of purchases of non-alcoholic beverages with VAT treatment of drinking water consumption

According to the current regulations, the costs of providing water and non-alcoholic hot and cold beverages to employees in business premises during working hours are considered tax-deductible expenses and are not taxable income for the employees. However, according to the interpretation by the Ministry of Finance from 2005, the right to deduct input VAT is recognized only for water, while input VAT is not recognized for other beverages (e.g., juices), even though they are treated equally under the Personal Income Tax Act.

AmCham proposes aligning the VAT treatment for all such beverages (except the alcoholic ones) with the treatment of drinking water, as these are costs incurred for the purpose of conducting business activities, rather than for the personal consumption of employees. Providing beverages within the workplace contributes to employees’ basic physiological needs and improves their productivity. Therefore, employers should be allowed to deduct input VAT for other hot and cold non-alcoholic beverages as well.

Use of taxi services on a business trip

According to the current regulations, the cost of transportation from the airport to the location of a business trip is considered part of the business trip expenses and can be reimbursed without the calculation of tax. On the other hand, taxi costs within the business trip location should formally be covered by per diems, and their subsequent reimbursement is subject to taxation as an income in kind. However, in practice, employees often use taxi services for the purpose of efficiently carrying out multiple business activities in one day, which aligns with the purpose of the trip itself.

AmCham therefore proposes that such expenses, when clearly of a business nature, be recognized as part of the business trip costs without the need for taxation, while the per diem should be used to cover basic expenses for food and beverages. This approach would be appropriate given the current rise in costs and business practices.

Introducing a tax relief for the private use of official plug-in and electric vehicles

If a company owns plug-in vehicles (BEV and PHEV) or electric vehicles and its workers use them privately as well, AmCham proposes considering an option to exempt such use from private income tax applied to income in kind by following the examples found in the Republic of Slovenia, United Kingdom, and the Netherlands and thus contribute to the efforts aimed at reducing CO₂ emissions and achieving EU climate goals.

Also guided by the example of neighboring Slovenia, AmCham proposes to further encourage the purchase of environmentally friendly vehicles by allowing full deduction of input VAT and recognition of all costs for corporate income tax purposes.

Taxation of Income on the Basis of Capital Gains

Taxation of income from capital on the basis of capital gains was introduced on January 1, 2016. In practice, it has been noticed that certain provisions are not regulated precisely enough, leading to doubts as to whether taxable income has occurred at all and how to determine the base for calculating taxes, i.e., capital gains. An example is the insufficiently explained investment in “portfolios” (Article

67, paragraph 6 and paragraph 7 of the Personal Income Tax Act). Moreover, practical challenges arise in determining the capital gain amount from the disposal of equity interests in companies that are not tradable on the capital market. Namely, in the above cases, the tax liability is determined by a decision of the Tax Administration. However, the Personal Income Tax Act and Ordinance do not provide clear guidance on how the Tax Administration will assess the purchase and sale value of an equity interest to determine whether what is reported by the taxpayer corresponds to actual market values. Additionally, the role of cryptocurrencies, which are not sufficiently legally defined, is increasing.

AmCham proposes a clearer definition of the general legal provisions related to the taxation of income from capital gains. Additionally, it is necessary to introduce normative regulation of the tax treatment of capital gains on the basis of cryptocurrency trading (currently, the only source of law is an instruction issued by the Tax Administration in 2018) as well as on the basis of the potential use of cryptocurrencies for payments for goods and services.

Reduction of the base for calculating pension insurance contributions

AmCham welcomes the relief of the lowest salaries from public dues by reducing the pension insurance base for gross salaries of up to EUR 1,300 per month.

AmCham proposes to additionally raise the threshold for this relief to the amount of EUR 1,800 per month (gross 1), and amend the current administrative model behind this relief. That is, practice has shown that the current administrative solution is highly complex and often unenforceable in practice (especially when the taxpayer has two or more employers who would have to continuously exchange confidential information about employees with each other to be able to apply the legal provisions correctly).

Since the Tax Administration has all the information on taxpayers submitted by employers via JOPPD forms, AmCham proposes applying this relief at the end of the tax period (calendar year), in such a way that the Tax Administration ex officio approves contribution refunds to taxpayers who meet the prescribed criteria.

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

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