



ICLG

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Corporate Tax 2018

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Croatia

Silvije Čipčić-Bragadin



Čipčić-Bragadin and Associates
in cooperation with Tax Advisory TUK Ltd.

Edo Tuk



1 Tax Treaties and Residence

1.1 How many income tax treaties are currently in force in your jurisdiction?

There are currently 61 tax treaties in force in Croatia.

1.2 Do they generally follow the OECD Model Convention or another model?

Yes, they generally follow the OECD Model.

1.3 Do treaties have to be incorporated into domestic law before they take effect?

Yes, all treaties have to be ratified by the Croatian Parliament.

1.4 Do they generally incorporate anti-treaty shopping rules (or “limitation on benefits” articles)?

Generally they do not contain a limitation on benefits article.

1.5 Are treaties overridden by any rules of domestic law (whether existing when the treaty takes effect or introduced subsequently)?

No, they are not.

1.6 What is the test in domestic law for determining the residence of a company?

The Croatian Income Tax Act defines a corporate resident as any legal or natural person whose seat is registered with the Register of Companies or any other register in Croatia, or whose place of effective management of business is in Croatia. Residents are also natural persons registered as entrepreneurs.

2 Transaction Taxes

2.1 Are there any documentary taxes in your jurisdiction?

Yes, certain transactions are subject to mandatory notarisation or solemnisation.

2.2 Do you have Value Added Tax (or a similar tax)? If so, at what rate or rates?

Yes, the general VAT rate is 25%.

For certain products such as bread, milk, books, scientific publications, some healthcare products, etc., a rate of 5% applies.

For tourist accommodation services, newspapers and magazines, etc., a 13% rate applies.

2.3 Is VAT (or any similar tax) charged on all transactions or are there any relevant exclusions?

The most relevant exclusion is in regard to insurance services, credits and loans, credit guarantees, management of investment funds, lotteries, betting and casino games, certain construction services, postal services, hospital and medical care services, dental services, certain cultural services, certain sports activities, etc.

2.4 Is it always fully recoverable by all businesses? If not, what are the relevant restrictions?

Restrictions are applicable for all business types, and the most relevant ones are related to vehicle purchase, with its accompanying expenses and the entrepreneur’s cost of representation.

2.5 Does your jurisdiction permit “establishment only” VAT grouping, such as that applied by Sweden in the *Skandia* case?

No, it does not.

2.6 Are there any other transaction taxes payable by companies?

Yes. These include court fees, stamp duties and, for example, when transactions have to be registered, the land plot conveyance procedure. Such fees vary from HRK 50 to HRK 5,000.

2.7 Are there any other indirect taxes of which we should be aware?

Companies are subject to: a tax on company name, determined by the local municipality; a Croatian Chamber of Economy fee; and a Croatian Radio Television fee.

3 Cross-border Payments

3.1 Is any withholding tax imposed on dividends paid by a locally resident company to a non-resident?

Yes; in the absence of the relevant double taxation treaty, withholding tax is levied at a rate of 12%.

3.2 Would there be any withholding tax on royalties paid by a local company to a non-resident?

Yes; in the absence of the relevant double taxation treaty, withholding tax is levied at a rate of 15%.

3.3 Would there be any withholding tax on interest paid by a local company to a non-resident?

Yes; in the absence of the relevant double taxation treaty, withholding tax is usually levied at a rate of 15%.

3.4 Would relief for interest so paid be restricted by reference to “thin capitalisation” rules?

Yes, if the interest is paid to a related company.

3.5 If so, is there a “safe harbour” by reference to which tax relief is assured?

Tax relief for accrued interest paid to a relevant company is restricted up to the amount which exceeds four times the amount of the company’s initial share capital.

3.6 Would any such rules extend to debt advanced by a third party but guaranteed by a parent company?

Yes, they would.

3.7 Are there any other restrictions on tax relief for interest payments by a local company to a non-resident?

No, there are not.

3.8 Is there any withholding tax on property rental payments made to non-residents?

No, there is no such tax.

3.9 Does your jurisdiction have transfer pricing rules?

Yes, it does.

4 Tax on Business Operations: General

4.1 What is the headline rate of tax on corporate profits?

Corporate profit tax (CPT) is levied at a 12% rate for taxpayers whose yearly revenue does not exceed HRK 3,000,000 (approximately

EUR 401,212). For taxpayers who reach or exceed the threshold, CPT is levied at 18%.

4.2 Is the tax base accounting profit subject to adjustments, or something else?

Yes, the tax base is subject to adjustments.

4.3 If the tax base is accounting profit subject to adjustments, what are the main adjustments?

The tax base is reduced by revenues from dividends and profit shifting, value adjustment of shares and stakes, revenues from collected write-off claims, depreciation and tax reliefs for reinvested profit.

4.4 Are there any tax grouping rules? Do these allow for relief in your jurisdiction for losses of overseas subsidiaries?

No, there are no such rules.

4.5 Do tax losses survive a change of ownership?

Yes, they do.

4.6 Is tax imposed at a different rate upon distributed, as opposed to retained, profits?

No, but there are certain tax reliefs for retained profits provided that certain prerequisites are met.

4.7 Are companies subject to any significant taxes not covered elsewhere in this chapter – e.g. tax on the occupation of property?

Yes. These include a tourist contribution, a monumental fee and a forest contribution. All three depend on the company’s revenue.

5 Capital Gains

5.1 Is there a special set of rules for taxing capital gains and losses?

No, there is not.

5.2 Is there a participation exemption for capital gains?

No, there is not.

5.3 Is there any special relief for reinvestment?

No, there is not.

5.4 Does your jurisdiction impose withholding tax on the proceeds of selling a direct or indirect interest in local assets/shares?

No, it does not.

6 Local Branch or Subsidiary?

6.1 What taxes (e.g. capital duty) would be imposed upon the formation of a subsidiary?

No taxes are imposed on subsidiary incorporation.

6.2 Is there a difference between the taxation of a local subsidiary and a local branch of a non-resident company (for example, a branch profits tax)?

There is no difference between the taxation of a locally formed subsidiary and the branch of a non-resident company.

6.3 How would the taxable profits of a local branch be determined in its jurisdiction?

These would be determined in the same way as any other legal entity in Croatia.

6.4 Would a branch benefit from double tax relief in its jurisdiction?

No, it would not.

6.5 Would any withholding tax or other similar tax be imposed as the result of a remittance of profits by the branch?

A branch in Croatia is considered a separate legal entity. Therefore, no withholding or similar tax may apply between a branch office and its incorporator.

7 Overseas Profits

7.1 Does your jurisdiction tax profits earned in overseas branches?

No, it does not.

7.2 Is tax imposed on the receipt of dividends by a local company from a non-resident company?

Any dividend or profit received by a non-resident company is subject to a withholding tax, depending on double taxation treaty provisions. If there is no special DTT provision, the tax rate is 12%.

7.3 Does your jurisdiction have “controlled foreign company” rules and, if so, when do these apply?

This is not applicable in Croatia.

8 Taxation of Commercial Real Estate

8.1 Are non-residents taxed on the disposal of commercial real estate in your jurisdiction?

No. Buyers are obligated to pay tax upon the purchase of a property.

8.2 Does your jurisdiction impose tax on the transfer of an indirect interest in commercial real estate in your jurisdiction?

No, it does not.

8.3 Does your jurisdiction have a special tax regime for Real Estate Investment Trusts (REITs) or their equivalent?

REITs conduct business under the same conditions as any other entity in Croatia. However, services paid for managing a REIT are VAT-exempt.

9 Anti-avoidance and Compliance

9.1 Does your jurisdiction have a general anti-avoidance or anti-abuse rule?

General anti-avoidance rules apply.

9.2 Is there a requirement to make special disclosure of avoidance schemes?

No, there is no such requirement.

9.3 Does your jurisdiction have rules which target not only taxpayers engaging in tax avoidance but also anyone who promotes, enables or facilitates the tax avoidance?

Croatia does not have any rules targeting other persons involved in tax avoidance.

9.4 Does your jurisdiction encourage “co-operative compliance” and, if so, does this provide procedural benefits only or result in a reduction of tax?

Croatia has not adopted “co-operative compliance”.

10 BEPS and Tax Competition

10.1 Has your jurisdiction introduced any legislation in response to the OECD’s project targeting Base Erosion and Profit Shifting (BEPS)?

Even though Croatia is not a member of the OECD, the BEPS plan will become applicable according to the EU Directives. For example, Action 13 of the BEPS plan has been incorporated into Croatian legislation and is applicable as of the beginning of 2017.

10.2 Does your jurisdiction intend to adopt any legislation to tackle BEPS which goes beyond what is recommended in the OECD’s BEPS reports?

Such information was not available at the time of publication.

10.3 Does your jurisdiction support public Country-by-Country Reporting (CBCR)?

Yes, Croatia has implemented CBCR regulations into its laws.

10.4 Does your jurisdiction maintain any preferential tax regimes such as a patent box?

No such regimes are maintained.



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Silvije is a partner, primarily in charge of the firm's vast corporate, banking and finance and commercial practice. Clients include a roster of international companies, financial institutions, funds, investment managers and public entities. To date, he has counselled on some of the biggest transactions and projects in Croatia. His list of clients includes some of the leading *Fortune Global 500* companies. Silvije is also regularly involved in various complex dispute resolution proceedings, including arbitration processes.

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