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## **International Bar Association Annual Conference 2025**

### **Recent developments in international taxation: Croatia**

#### **Highlights**

As Croatia navigates the 2025 economic landscape, tax reform has emerged as a key priority for:

- strengthening tax discipline;
- increasing the availability of residential properties;
- reducing the taxation of active income; and
- encouraging the repatriation of Croatian citizens.

Croatia made significant progress in eliminating double taxation by signing a double tax treaty with the Principality of Liechtenstein on 22 January 2025. However, the ratification process is ongoing, so the treaty's entry into force is not yet foreseeable.

#### **Introducing real estate tax**

##### *General*

The newly introduced real estate tax aims to address imbalances in the residential real estate market, particularly the shortage of long-term rental properties. It seeks to regulate and increase legal certainty in landlord–tenant relations and to foster a stable, predictable real estate management policy. This includes encouraging long-term rentals and creating stable housing conditions for families and workers in areas affected by rental seasonality.

Another important goal is decentralisation, with the tax revenue shared between local (municipalities and cities) and regional (counties) government units, distributed at 80 per cent to municipalities and cities, and 20 per cent to counties.

Previously, a form of real estate tax existed as the 'vacation home tax' under the Local Taxes Act, but its application was voluntary and uneven across local government units. The new real estate tax is mandatory, requiring local governments to enact amendments and set tax rates by the end of February 2025 – albeit within prescribed ranges that consider the property's condition and characteristics.

##### *Taxpayers and taxbase*

The tax applies to residential buildings or parts thereof, including apartments and other independent functional spaces intended for housing. Commercial buildings used solely for agricultural machinery or equipment are excluded.

The tax obligation for newly built properties arises upon issuance of the use permit or commencement of use without a permit.

It is important to distinguish the real estate tax from the flat rate personal income tax on tourist rental activities: the former is based on property ownership, while the latter is based on rental activity. Owners engaged in rental activities may be liable for both taxes unless specific exemptions apply.

Both domestic and foreign individuals and legal entities owning real estate as of 31 March of the tax year are liable for the tax. If ownership cannot be determined, the user of the property, as defined by communal economy regulations, is liable. Property owners must report any changes affecting their tax liability by 31 March or face fines ranging from €1,000 to €6,630.

#### *Tax rates and payments*

Local governments set tax rates between €0.60 and €8 per square metre, with payment due within 15 days of receiving the tax decision. If a local government unit fails to introduce the tax, the default rate of €0.60 per square metre applies.

Local units may apply zoning with different rates by area, increase rates based on property age or features, and exempt socially vulnerable citizens.

#### *Exemptions from taxation*

Exemptions include properties:

- used as permanent residences by owners and related family members;
- rented long term (at least ten months per year);
- used for public or institutional accommodation;
- recorded as properties for sale in company books;
- acquired in exchange for unpaid receivables;
- unfit for residential use due to natural disasters or other reasons;
- owned exclusively by local government units; and
- serving as permanent residences for hospitality industry ‘hosts’.

### **Changes in personal income tax**

#### *Flat rate tax on tourist rentals*

The annual flat rate personal income tax for renting accommodations (apartments, rooms and beds, campsites and Robinson accommodation facilities) is set in the range of €19.91 to €199.08 per bed per year, depending on local government decisions.

From 2025, rates are set according to four categories based on the Tourism Development Index (TDI), with municipalities classified accordingly.

According to the TDI for 2023, a total of 61 municipalities/cities fall into the first, 47 into the second, 126 into the third and 290 into the fourth category. The first and second category include places by the sea and several developed areas in the interior of Croatia, while most municipalities and cities fall into the third or fourth groups.

Depending on which of the four categories a particular municipality or city falls into, the flat rate personal income tax is set in the range of a minimum of €20 and a maximum of €300 per bed, as shown in Table 1 below.

<b>Tourism Development Index</b>	<b>TDI1</b>	<b>TDI2</b>	<b>TDI3</b>	<b>TDI4</b>
<b>Flat rate income tax range per bed – 2024 (€)</b>	19.91– 199.08	19.91– 199.08	19.91– 199.08	19.91– 199.08

<b>Flat rate income tax range per bed – 2025 (€)</b>	10–300	70–200	30–150	20–100
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*Table 1: Flat rate tax on tourist rentals rates*

Local government units are obliged to prescribe the amount of the flat rate personal income tax in the specified ranges. If they do not do so, the following amounts (per bed per year) will apply:

- TDI1 – €225;
- TDI2 – €150;
- TDI3 – €90; and
- TDI4 – €60.

Local government units will be able to change their decisions on the amount of the flat rate tax every year. The deadline for making such a decision is 15 December of the current year for the following year.

#### *Personal allowance and tax brackets*

The basic monthly personal allowance increased from €560 to €600, with proportional increases for dependent children, family members and persons with disabilities, as shown in Table 2 below.

	2024	2025
<b>Dependent person</b>	Monthly amount of personal allowance (€)	
<b>Family member</b>	280	300
<b>Child 1</b>	280	300
<b>Child 2</b>	392	420
<b>Child 3</b>	560	600
<b>Child 4</b>	784	840
<b>Child 5</b>	1,064	1,140
<b>Disability</b>	168	180
<b>Disability 100%</b>	560	600

*Table 2: Personal allowances*

The monthly tax base threshold for higher tax rates rose from €4,200 to €5,000, and the annual threshold from €50,400 to €60,000. Tax rates decreased slightly: lower rates now range from 15 per cent to 23 per cent, and higher rates from 25 per cent to 33 per cent, as shown in Table 3.

The final tax rate is determined by local government decisions, impacting payroll calculations. The minimum gross salary is set at €970.

	Tax rates in % applicable on annual tax base in 2024	
<b>Type of local government unit</b>	Tax base up to €50,400	Tax base from €50,400
<b>Municipality</b>	15–22	25–33
<b>City with less than 30,000 residents</b>	15–22.40	25–33.60
<b>City with more than 30,000 residents</b>	15–23	25–34.50

<b>Zagreb</b>	15–23.60	25–35.40
<b>Tax rates in % applicable on annual tax base in 2025</b>		
<b>Type of local government unit</b>	Tax base up to €60,000	Tax base from €60,000
<b>Municipality</b>	15–20	25–30
<b>City</b>	15–21	25–31
<b>Big city and county centre</b>	15–22	25–32
<b>Zagreb</b>	15–23	25–33

*Table 3: Personal tax rates*

### *Non-taxable receipts*

Increases in personal allowance affect certain non-taxable receipts, such as severance payments upon retirement (raised from €1,400 to €1,500) and annual bonuses for work results (raised from €1,120 to €1,200).

### *Other important changes*

A new exemption from personal income tax on salaries applies for five years to Croatian emigrants returning after living abroad for at least two years.

The exemption from paying health insurance contributions (16.5 per cent) on young employees' salaries has been abolished.

## **VAT changes**

### *VAT registration threshold increased*

The VAT registration threshold increased from €40,000 to €60,000, effective 1 January 2025.

Taxpayers exceeding this threshold in 2024 must register for VAT by 15 January 2025.

A taxpayer must register for VAT from the first day following the day they exceed the €60,000 threshold.

Those below the threshold may request deregistration, except those who voluntarily registered: they must remain registered for at least three years.

### *Refund of Croatian VAT now available to businesses from all countries*

Non-EU businesses now have easier access to Croatian VAT refunds incurred on purchases of goods and services and on imports in Croatia, as the reciprocity condition requiring countries to grant reciprocal refunds has been abolished.

Based on the previously applicable rules (still applicable to refund requests raised in connection to VAT incurred in 2024), only businesses from North Macedonia, Serbia, Switzerland, Turkey and the United Kingdom could obtain the refund due to reciprocity.

### *Extension of the special VAT scheme for small taxpayers to cross-border transactions*

Under certain conditions, Croatian businesses using the special scheme for small taxpayers are, from 1 January 2025, also able to apply the exemption on their supplies made in other Member States.

Also, small taxpayers established in another Member State can apply the VAT exemption on their supplies made in Croatia (transposition of the EU Directive 2020/285).

## **Changes regarding General Tax Act**

### *Amendments regarding liability for not submitting tax returns*

Company members are now jointly and severally liable with the company for failure to submit monthly and annual tax returns. The company members will be jointly and severally liable together with the company as guarantor payers for determined tax liability.

### *Amendments regarding electronic communication between tax administration and taxpayers*

All tax acts will be delivered electronically via the tax administration's ePorezna system, with taxpayers' registration constituting consent to electronic delivery.

Electronic submission obligations have expanded beyond the previous scope of medium and large entrepreneurs and VAT taxpayers to:

- all legal entities liable for corporate income tax;
- self-employed persons;
- rental activity taxpayers; and
- ship crew members.

### *Amendments regarding admissibility of tax audit*

Tax audits generally must be conducted within three years from the start of the statute of limitations (six years total). However, in cases of abuse of rights, asset verification, tax fraud or upon authority requests, audits may cover periods not yet statute barred.

Amendments extended audit admissibility to six years for cross-border transactions, including transfer pricing and tax arrangements involving multiple jurisdictions.

## **Introduction of global minimum corporate income tax**

Croatia implemented the Global Minimum Corporate Income Tax Act effective from 31 December 2023, with application rules to be adopted by the end of 2025.

This legislation follows the OECD's Pillar Two model rules and EU Directive 2022/2523, targeting multinational enterprise groups and large domestic groups with consolidated annual revenues of €750m or more. The aim is to ensure a minimum level of taxation on large multinational groups to prevent base erosion and profit shifting.

## **Amendment of transfer pricing rules**

From 1 January 2025, Croatia expanded transfer pricing documentation requirements and introduced flexibility in transfer pricing methods.

While the five OECD-standard methods remain primary, taxpayers may now use additional methods if standard ones are unsuitable, provided the arm's-length principle is respected and a functional analysis justifies the choice. This aligns Croatian transfer pricing rules more closely with OECD Guidelines, enhancing transparency and compliance in cross-border transactions.