



## **OTP Bank Group**

Market: Croatia

Date: October 06th, 2023

Category: Market News

### **Changes and amendments to the Income Tax Act and the Profit Tax Act**

The Croatian Parliament has adopted a package of tax legislation, including the changes and amendments to the Income Tax Act and the Profit Tax Act, that will become effective on the Croatian market as of 1 January 2024.

Amendments to the Income Tax Act increase the withholding tax on dividends and shares in profit paid to domestic and foreign individuals from 10% to 12% but with surtax abolition. The same withholding tax rate will apply to capital gains for domestic and foreign individuals instead of currently applicable 10%. Withholding tax on dividend for foreign legal entities remains at the rate of 10%.

The most significant change in the Profit Tax Act is the increase of the withholding tax from 20% to 25% applicable to all remunerations payable under the Article 31 of the Profit Tax Act (including dividend and interest) to legal entities resident in countries from the EU List of non-cooperative tax jurisdictions, not having a Double Taxation Treaty with Croatia.

Interest payments arising from bonds remain to be tax exempt.

Additionally, Article 31f provides exemption from withholding tax on interest, royalties, dividends and shares in profit for related companies that are residents of the European Economic Area (Norway, Iceland and Lichtenstein) for tax purposes under the same conditions prescribed for related companies that are residents of a member state of the European Union for tax purposes.

The Minister of Finance is expected to adapt the Profit Tax Act bylaw which should adjust the procedure for legal entities being resident in EEA countries to the already existing procedure applicable to the legal entities that are resident in EU member countries.



Please find a table overview of tax rates, existing and future ones:

Current standard tax rates in Croatia:	
<b>Dividend income</b>	
Legal entities	10%
Private Individual	10% + surtax
<b>Interest income</b>	
Legal entities and private individuals	not subject to withholding tax over interest payments; 0%
<b>Exemption for dividend and interest</b>	20%, for investors based in non-cooperative tax jurisdictions (except for interest from bonds), not having a Double Taxation Treaty with Croatia
<b>Capital Gains</b>	
Private Individual	10% + surtax (depends on the registered residence of the private individual)
<b>Stamp Duty</b>	no
<b>VAT</b>	not applied on financial services such as safekeeping services

Tax rates in Croatia from 01.01.2024.:	
<b>Dividend income</b>	
Legal entities	<b>10%</b>
Private Individual	<b>12%</b>
<b>Interest income</b>	
Legal entities and private individuals	not subject to withholding tax over interest payments; 0%
<b>Exemption for dividend and interest</b>	<b>25%</b> , for investors based in non-cooperative tax jurisdictions (except for interest from bonds), not having a Double Taxation Treaty with Croatia
<b>Capital Gains</b>	
Private Individual	<b>12%</b>
<b>Stamp Duty</b>	no
<b>VAT</b>	not applied on financial services such as safekeeping services

**Impact:** For information purposes

**Required actions:** -

**Application date:** January 01, 2024.2024.

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