



Amendments of tax legislation with effect from 1 January 2025

Tax Alert, March 2025

Effective from 1 January 2025, the Republic of Croatia enacted amendments to the Corporate Income Tax Regulations as well as amendments to the General Tax Act, introducing significant changes related to transfer pricing regulations. These amendments aim to improve fairness and transparency in the operations of multinational companies operating in the Republic of Croatia, as well as enabling better control and monitoring of transfer pricing by the Tax Authorities.

A summary of the relevant amendments is provided below.

For details, please contact Deloitte professionals.

Regulations on Amendments to the Corporate Income Tax Regulations

Key changes include:

Use of Alternative Transfer Pricing Methods:

In addition to the existing transfer pricing methods specified in Article 13, Section 3 of the Corporate Income Tax Act, which relate to Traditional Transactional Methods and the Transactional Profit Methods, the taxpayer now has, under certain conditions, the possibility to use other methods for determining prices.

Definition of the Actual Transaction:

For the purpose of applying the rules from Article 13, Section 4 of the Corporate Income Tax Act, the taxpayer is now required to accurately define the actual transaction. This includes taking into account the business and financial relationships between related parties, their performed functions, used assets, assumed risks, and the circumstances under which controlled transactions occur.

Documentation for Proving the Arm's Length Nature of Transactions:

The taxpayer is now obliged to gather and, upon request of the Tax Authorities, submit comprehensive documentation that includes:

- a) Information on the business operations of the multinational enterprise group, containing information such as a brief functional analysis of main contributions to value creation, a description of the supply chain, and the 5 main products and/or services, as well as other products and/or services exceeding 5% of total revenue, and more.
- b) Information on the local entity, containing information about the management structure, description of business operations and business strategies, description of the position in the local market, and more.

Updates of the Documentation:

The taxpayer is required to appropriately update the transfer pricing documentation from previous years, relied upon during the current year, to reflect adjustments due to material changes in relevant facts and circumstances.

Application of the OECD Guidelines:

Guidelines on transfer pricing for multinational enterprises and tax administrations given by the Organization for Economic Co-operation and Development (OECD) will now be officially used for the interpretation and application of transfer pricing rules. This marks a novelty, as Croatian law directly refers to and mandates the use of OECD Guidelines for the first time.

Act on Amendments to the General Tax Act

Key change introduced by the new amendments to the General Tax Act pertains to the deadline for initiating tax audits.

Article 117 of the General Tax Act stipulates that tax audits can commence within three years from the start of the statute of limitations on determining the tax liability. The new amendments add exceptions that extend the start of the statute of limitations to six years in the case of other procedures involving reviews of business operations abroad, related parties and companies, and cross-border transactions, as well as checks of transfer pricing, tax arrangements, and similar cross-border transactions and operations involving multiple jurisdictions or countries.

Best regards,

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