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Proposal to introduce a Corporate Income Tax on Excess Profit Margins

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The Croatian Government has proposed amendments to the Corporate Income Tax Act introducing a one-off **corporate income tax on excess profit margins** as part of its anti-inflation measures for 2026 (hereinafter: the "Draft Act").

Under the current wording of the Draft Act, the tax would apply to the tax period commencing in 2026, with the tax liability to be assessed and paid in 2027 together with the regular corporate income tax return.

The Draft Act is currently subject to public consultation, which is open until 30 August 2026.

Who would be subject to the excess profit margin tax?

Taxpayers subject to the excess profit margin tax would be medium-sized and large enterprises as defined under the Croatian Accounting Act, provided that more than 50% of their revenue is generated in Croatia.

Newly established enterprises filing a corporate income tax return for their first tax period would be exempt from the measure.

How is an excess profit margin determined?

For the purposes of this tax, the profit margin would be calculated as the ratio of profit to total revenue, after applying the specific adjustments prescribed by the Draft Act.

The profit margin for 2026 would be compared with the historical profit margin, determined based on the profit margins for 2023, 2024 and 2025 after applying the prescribed adjustments. Where adjusted profit was reported in only two of the preceding three tax periods, the historical profit margin would be based on the tax period with the higher profit margin. The Draft Act currently does not prescribe a methodology for determining the historical profit margin, and consequently the excess profit margin, where a taxpayer did not report a profit in any of the three preceding tax periods.

An excess profit margin would arise where the profit margin for 2026 is **more than 15% higher than the historical profit margin**, i.e. where it exceeds 115% of the historical profit margin. The tax base for the excess profit margin tax would be determined by applying the excess profit margin increase indicator to the adjusted revenue generated in 2026.

A **50% tax rate** is applied to the resulting tax base. To prevent double taxation of the same portion of the tax base, the amount of corporate income tax calculated by applying the regular corporate income tax rate to the excess profit margin tax base is deducted from the total corporate income tax liability for the relevant tax period.

Specific Adjustments

For purposes of calculating the profit margin, figures for 2026 and the preceding three tax periods are adjusted by excluding certain revenues, expenses, gains and losses. Among other items, the Draft Act provides for the exclusion of:

- certain revenues arising from (pre)bankruptcy proceedings;
- dividends and profit shares;
- compensation received and amounts awarded by courts;
- certain revenues, expenses, gains and losses arising from the disposal of tangible and intangible fixed assets used in production activities and service provision, as well as shares and equity interests in entities in which the taxpayer holds more than 10% interest; for transactions with related parties, the exclusion applies provided that the transaction was completed by 30 June 2026;
- gains and losses arising from statutory changes;
- depreciation of tangible and intangible fixed assets used in production activities and service provision;
- finance income and finance expenses, subject to specific rules applicable to financial institutions and taxpayers with predominantly finance income;
- realized and unrealized income and expenses from financial assets; and
- revenues and expenses attributable to foreign permanent establishments.

Specific rules are provided for taxpayers that carried out statutory changes during 2026 or the preceding tax periods, with such changes taken into account when calculating the excess profit margin.

What does this mean for taxpayers?

Although the measure is intended to apply on a one-off basis, the potential tax liability for 2026 will require an assessment of historical results for 2023 to 2025 and performance achieved in 2026, together with the application of the specific adjustments prescribed by the Draft Act.

Taxpayers that may fall within the scope of the measure should consider assessing their potential exposure during 2026, including a comparison of profit margins achieved in 2023 to 2025 against those achieved in 2026, as well as the impact of the proposed adjustments. Particular attention should be given to taxpayers that have undertaken M&A transactions or statutory changes during the relevant periods, operated through foreign permanent establishments, or generated significant finance income, finance expenses or gains and losses from financial assets.

The Draft Act provides that detailed implementation rules, including the treatment of statutory changes, the methodology for determining Croatia-sourced revenue, the calculation of the tax liability and the content of the reporting form, will be further regulated through the **Corporate Income Tax Regulation**.

Contact:

Please contact the following contacts for more detailed information.

Best regards,

Natko Sertić
Partner, Tax
nsertic@deloittece.com

Helena Schmidt
Partner, Tax
hschmidt@deloittece.com

Ida Zrilić
Director, Tax
izrilic@deloittece.com

Katarina Pavlović
Director, Tax
kpavlovic@deloittece.com

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