



## NEWSLETTER-ACT ON EXTRA CORPORATE INCOME TAX

22/12/2022

The Act on Extra Corporate Income Tax was adopted at the extraordinary session of the Croatian Parliament held on 16th December 2022. The Act will enter into force on the first day of its publication in the Official Gazette (except for Article 21) and it prescribes the following:

- **An entity liable for extra corporate income tax** is a taxable person liable for corporate income tax that fulfilled the following criteria in the tax period (year 2022):
  - had a total income exceeding HRK 300 million and
  - generated a taxable profit that is at least 20% higher than the average taxable profit in the last four tax periods (years 2021, 2020, 2019 and 2018) - regardless of the type of business activity it performs.
- Taxable person liable for extra corporate income tax are also persons who, in accordance with the special regulation governing international maritime navigation, are liable for of the ship tonnage tax.
- The following entities are exempt from the extra corporate income tax:
  - newly established independent entrepreneurs whose first year of business is 2022,
  - entrepreneurs ending their operations in 2022 without previously transferring their activities to other taxable persons.
- **The base for calculating extra corporate income tax** is the positive difference between the taxable profit of the tax period (year 2022) and the average taxable profit of the four previous tax periods increased by 20%.
- The tax base is determined regardless of whether the taxable person has a tax liability according to the corporate income tax return in accordance with the Corporate Income Tax Act. Therefore, regardless of paying corporate income tax, the taxable person must also pay the extra corporate income tax.
- For the purpose of calculating the extra corporate income tax base, income from write-off of liabilities in pre-bankruptcy and bankruptcy proceedings, income in bankruptcy proceedings resulting from the sale of assets to settle debts to creditors and income from the sale of long-term tangible and intangible assets (which were used in the process of production or provision of services) to unrelated persons is excluded from the total income.
- In the same way, unrealized losses of financial assets whose change in fair value is recognized in the P/L account and for which the tax base has been increased on position 22 of the corporate income tax return, can be excluded from the base, except for loans and receivables, for which the taxable person is obligated to submit an appropriate explanation of the change in the fair value of the financial assets.

**TPA d.o.o.**

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- The extra corporate income tax base must also be corrected for any adjustments of income or tax liabilities determined in tax audits.
- If a taxable person had reported a tax loss in any of the previous tax periods, for the purposes of calculating the extra corporate income tax it is assumed that the taxable profit of that tax period is equal to zero.
- The extra corporate income tax is paid on the determined tax base ("extra profit") **at a rate of 33%**.
- Extra corporate income tax will be applied for one tax period only, namely for the year 2022 or, for taxable persons whose tax period is not equal to a calendar year, for the period starting from January 1st 2022.
- **A separate extra corporate income tax return** must be submitted for the extra corporate income tax, whereby the deadlines for submission of the return and payment of the extra corporate income tax liability are the same as for the corporate income tax.
- A taxable person and the Croatian Tax Administration can enter into an administrative agreement in order to settle the extra corporate income tax liabilities.



Please keep in mind the fact that legislation is subject to frequent change. This newsletter is therefore necessarily based on our understanding and correct interpretation of the law and practice at the time of publication of this newsletter. This newsletter will not be updated due to changes in legislation that occur after the issuance of this letter