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REPORT

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| From: | General Secretariat of the Council |
| To: | Permanent Representatives Committee |
| Subject: | Code of Conduct Group (Business Taxation) - Report to the Council = Approval |

Croatia's reduction of the tax rate for small and mid-sized taxpayers (HR015)

1. Summary of the measure

In Croatia, the standard CIT rate is 18%, while for taxpayers with an annual revenue below a certain threshold a reduced rate of 12% is applied. In 2019, the threshold for the rate of 12% was increased from HRK 3 million to HRK 7.5 million annually revenue (approximately EUR 1 million). It was decided in December 2020 that, as of 1 January 2021, the tax rate for these taxpayers will be reduced to 10% instead of 12%.

Reducing the tax rate will reduce the tax burden on small and medium-sized taxpayers. The measure covers around 93% of taxpayers. It is expected that the revenues of the State Budget from the profit tax will be lowered by around 125 million HRK (around € 16.6 million).

2. Summary conclusion

The effect of the measure is that the CIT rate decreases from 12% to 10% for companies with an income of maximum EUR 1 million. Hence, the measure targets small and medium size taxpayers. The Group has dealt with similar measures in the past¹ and concluded that they did not need to be assessed.

3. Follow-up

The COCG agreed that **no action** is required from the Code of Conduct Group, as it is a general measure.

¹ See CoCG report to ECOFIN ST 9652 2019 INIT and in particular measure PL010 [Poland: reduction of the standard CIT rate of 19% to 15% CIT rate and subsequently to 9% CIT rate for taxpayers with revenues not exceeding EUR 1.2 million]. See as well CoCG report to ECOFIN ST 8374 2020 INIT and in particular measure HR014 [Croatia: reduction of the standard CIR rate of 18% to 12% for taxpayers with revenues not exceeding EUR 1 million].