Tax advice
for entrepreneurs

CONEO

Ideas that pay off.

Monthly Newsletter

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1. CARRYFORWARD OF TAX LOSSES IN CROATIA

A **tax loss** arises when a company's tax-deductible expenses and costs exceed its revenues during a particular tax period. Although the business result may be negative, this does not mean the loss is permanently lost – Croatian tax regulations allow it to be used to reduce the tax base in future periods.

Croatia is among the European Union countries that allow the **carryforward of tax losses**, but with a time limit of **five years**. This means that taxpayers may use a tax loss incurred to reduce their tax base over the following five tax periods, with the oldest available tax loss being utilized first.

For example, in the **2026 corporate income tax return,** it is still possible to utilize a tax loss incurred in **2021**, provided it has not already been used.

It is important to emphasize that a tax loss is not recorded as an accounting entry, but serves solely for the calculation of the corporate income tax base.

Proper record-keeping and monitoring of deadlines are essential to ensure that the right to carry forward the loss is not forfeited.

According to **Tax Foundation** data, **19 European countries** allow tax losses to be carried forward without any time limitation, while Croatia belongs to the group of countries – together with Slovenia, Poland, Hungary, the Czech Republic and Romania – that apply a five-year limitation. Unlike some jurisdictions, the Croatian tax system does not allow tax losses to be carried back to previous tax periods (loss carryback).

Special attention should also be paid to the transfer of tax losses in the event of **corporate restructuring**, such as mergers by acquisition. If the company being acquired has unused tax losses, the right to utilize those losses may be transferred to the legal successor. However, the five-year period does not restart – the successor only acquires the remaining period during which the tax loss may be used.

At the same time, Croatian legislation provides for certain restrictions. The right to carry forward tax losses may cease if, following a corporate restructuring, there is a significant change in the company's business activity or ownership structure, or in other cases prescribed by the **Corporate Income Tax Act**.

The possibility of carrying forward tax losses is particularly important for businesses operating in industries with significant investment cycles or fluctuating revenues, as it allows tax liabilities to be balanced over several financial years. Timely planning and the proper application of tax regulations can have a significant impact on future tax liabilities and the company's overall financial position.

2.

FOREIGN PROPERTY OWNERS IN CROATIA: WHAT TAX OBLIGATIONS DOES TOURIST RENTAL BRING?

Over the past few years, Croatia has become one of the most attractive destinations for real estate investment, with an increasing number of foreign nationals using their apartments, holiday homes and villas for tourist rentals. Although such investments can represent a significant source of income, it is important to understand in advance the tax and administrative obligations arising from renting out property in Croatia.

The tax treatment of foreign property owners depends on several factors, including the owner's country of tax residence, the chosen rental model, and whether the property is rented independently or through a Croatian travel agency. In certain cases, VAT obligations must be regulated before the first rental takes place, and a Croatian VAT identification number must be obtained. In addition, the chosen business model may affect administrative procedures, the right to deduct input VAT, and the overall tax burden.

It is important to emphasize that tourist rentals involve more than simply registering guests and collecting rental payments. Foreign landlords are required to issue invoices for the services provided, maintain the prescribed records, and ensure compliance with Croatian tax regulations. In practice, many property owners mistakenly assume that booking confirmations from platforms such as Booking.com or Airbnb are sufficient documentation. However, these confirmations do not replace a properly issued invoice.

Particular attention should also be paid to international taxation. Income generated from renting property in Croatia may affect the owner's tax obligations in their country of tax residence, depending on the provisions of the applicable double taxation treaty. Therefore, tax obligations in both countries should be considered as a whole, and the taxation model should be planned in advance.

In addition, the international exchange of tax information between European Union Member States and the increasing availability of data from digital booking platforms enable tax authorities to monitor rental income more efficiently than ever before. As a result, compliance with tax regulations has become more important than ever, particularly for foreign property owners operating across multiple jurisdictions.

A properly structured business model from the outset can significantly reduce administrative and tax risks while making it easier to manage both the property and rental income.

In our blog, we provide a detailed overview of VAT obligations, VAT registration procedures, invoicing requirements, tax rules for foreign property owners, the impact of double taxation treaties, and practical guidance to help you organize your rental business in Croatia in compliance with the applicable legislation.

3.
REPRESENTATION, SEMINARS AND TEAM BUILDING – WHEN DOES AN EXPENSE BECOME A TAX RISK?

Expenses related to representation, business seminars, catering and team-building events often raise questions in practice, even though they may initially appear straightforward from an accounting perspective. However, the tax treatment of these expenses does not depend on the title of the invoice or the name of the event, but rather on its actual purpose, the participants involved, and the quality of the supporting documentation demonstrating the business nature of the expense.

Representation expenses include costs incurred for establishing or maintaining business relationships with existing or potential business partners. These typically include business lunches and dinners, catering for business guests, gifts for business partners, and certain costs related to organizing business meetings and events. It is important to note that input **VAT on representation expenses is not deductible, while for corporate income tax purposes only 50% of the total expense (including VAT) is treated as a tax-deductible expense.**

One of the most common misconceptions is the assumption that every invoice for food and beverages automatically qualifies as representation. This is not always the case. If a seminar or educational event is organized for business partners, the costs of renting the venue, speakers, technical equipment, and educational materials are generally considered ordinary business expenses. On the other hand, food and beverages provided to business partners during such an event will generally be treated as representation expenses and are therefore subject to the corresponding tax treatment.

The tax treatment may differ when it comes to **internal employee training**. If a seminar has a clearly defined business purpose, a structured agenda, qualified lecturers, and documented attendance, the costs of training, accommodation, and organization are generally regarded as legitimate business expenses. However, if meals are provided to employees during a business trip or training event, employers must take into account the rules governing daily allowances, as provided lunches or dinners may affect the tax-exempt amount of those allowances.

Special attention should also be given to **team-building events**. If the event includes genuine educational content related to the company's business activities and is supported by an appropriate program and documentation, the related costs may qualify as legitimate business expenses. However, if the event consists solely of social gatherings, wellness activities, sports, or entertainment without a genuine business purpose, the expenses may be treated as a **taxable benefit in kind for employees**, potentially resulting in additional tax and social security contribution liabilities.

It is equally important to distinguish **representation** from **advertising and promotion**. While representation is aimed at entertaining and maintaining relationships with business partners, advertising and promotion include marketing activities intended to promote a company's products or services, such as advertising campaigns, promotional materials, and other forms of marketing communication. Correctly distinguishing between these two categories is essential for determining the appropriate tax treatment and the right to deduct input VAT.

Whether the expense relates to a business lunch, seminar, catering service or team-building event, proper documentation remains one of the most important elements of tax compliance. Businesses are advised to maintain records of the purpose of the event, lists of participants, attending business partners, seminar agendas, and to separately document training, organizational and hospitality expenses.

4.
NEW OBLIGATIONS FOR EMPLOYERS HIRING FOREIGN WORKERS IN CROATIA

As of **4 June 2026**, amendments to **the Foreigners Act** have entered into force, introducing significant changes for employers hiring third-country nationals. The amendments were adopted to align Croatian legislation with European regulations, including the implementation of the **Pact on Migration and Asylum**, with the aim of simplifying administrative procedures, improving the efficiency of legal processes, and strengthening the protection of foreign workers.

One of the most important changes concerns the conditions employers must meet. Employers who do not actively carry out the registered business activity related to the occupation for which they are seeking to employ a foreign worker will no longer be eligible to obtain residence and work permits. The objective is to prevent abuse of the system and ensure that permits are issued only to employers who genuinely conduct business activities.

The amendments also introduce new rules regarding the **labour market test**. A worker for whom a labour market test has been conducted may work only within the jurisdiction of the police administration for which the test was carried out. For occupations officially designated as **shortage occupations**, employment will only be permitted in areas where the occupation has been formally identified as being in shortage according to the list published by the Croatian Employment Service.

The Act also changes the conditions for obtaining a positive opinion from the **Croatian Employment Service** and further simplifies procedures for changing employers and occupations, providing greater flexibility within the labour market.

One of the most notable changes concerns the requirement to pass an examination demonstrating knowledge of the **Croatian language and the Latin script**. However, this requirement will not apply immediately. It will enter into force on **4 June 2027**, when proof of passing the examination will become a mandatory part of applications for the issuance or extension of residence and work permits.

It is important to note that permits issued under the previous regulations remain valid until their expiry date, while all procedures initiated before 4 June 2026 will continue under the legislation that was in force at the time the application was submitted.

With the growing number of employers hiring foreign workers, these amendments require timely adjustments to internal procedures and workforce planning. Familiarizing yourself with the new regulations in advance can help avoid administrative difficulties, delays in permit procedures, and potential compliance risks.

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