



Forvis Mazars – Tax news

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The Ministry of Finance has announced the planned anti-inflation policy measures on its official website in May of 2026.

Tax measures include:

- the introduction of a tax on excessive gross profit margins,
- amendments to lump-sum taxation in the tourism sector,
- changes to the lump-sum taxation regime for sole proprietors and
- changes from the aspect of personal income tax on pensions.

Below we provide a more detailed overview based on the currently available information. Please note that, at this stage, draft amendments to the relevant laws and regulations have not yet been published on the e-Savjetovanje website. Accordingly, we cannot know with certainty that this will be the final version of the proposed measures.

Introduction of a tax on excessive gross profit margins

Tax on excess profit margins of gross profit will apply to medium-sized and large taxpayers who exceed threshold indicators in two of the following three conditions:

- total assets of EUR 5,000,000.00
- net revenue of EUR 10,000,000.00
- average number of employees during the business year – 50 employees

Gross profit in 2026 will be compared to the average achieved in the previous three years, namely 2023, 2024, and 2025. A permitted deviation from this average will be 15%, and any profit margin exceeding this threshold will be taxed at a rate of 50%.

The above will not apply to taxpayers who generate more than 50% of their income outside of the Republic of Croatia.

Amendments to lump-sum taxation in the tourism sector

Changes to lump-sum taxation in the tourism sector have also been announced in the context of short-term rentals. Specifically, an increase in the minimum lump-sum tax levels has been announced: in the first group from EUR 100 to EUR 150, and in the second group from EUR 70 to EUR 100. The minimum lump-sum tax levels for the remaining two groups remain unchanged.

Changes to the Lump-Sum Taxation of Sole Proprietors

Below is a comparison of the current and proposed total tax burden (income tax and social security contributions) for lump-sum taxed sole proprietors across different income brackets. The table shows which brackets remain unchanged and at which income levels the overall burden increases.

Tax bracket (Income, EUR)	Current liability (EUR)	New liability (EUR)	Absolute increase (EUR)	Percentage increase
0 – 15.300,00	3.767,14	3.767,14	0,00	0,0%
15.300,01 – 19.900,00	3.849,94	3.849,94	0,00	0,0%
19.900,01 – 30.600,00	4.042,54	4.352,57	310,03	7,7%
30.600,01 – 40.000,00	4.211,74	5.248,20	1.036,46	24,6%
40.000,01 – 50.000,00	4.391,74	6.546,44	2.154,70	49,1%
50.000,01 – 60.000,00	4.571,74	8.324,67	3.752,93	82,0%

Changes from the aspect of personal income tax on pensions

Abolition of personal income tax on pensions – effects on domestic and foreign pensions

The announced amendments to the tax legislation provide for the abolition of income tax on pension income, effective from 1 January 2027, making pensions in Croatia exempt from personal income taxation.

This represents a significant change that will have different practical implications depending on whether the taxpayer receives a pension from Croatia or from abroad.

Effect on domestic pensions

With regards to Croatian pensions, the effects are relatively straightforward.

Once the amendments enter into force:

- pensions will no longer be included in the taxable income base,
- income tax will no longer be calculated or paid on pension income and
- consequently, there will no longer be a need to apply the existing mechanisms (personal allowance, the 50% tax reduction for pensioners, etc.).

In practice, this means that the amount of pension received by a pensioner will also represent the final net amount, without any further tax adjustments. However, in order to fully assess the effects of this measure, it will be crucial to clarify whether pensions will be completely excluded from the taxable income system, particularly for pensioners who simultaneously earn other types of taxable income.

Effect on foreign pensions

In the case of foreign pensions, the situation is more complex.

Under the current rules, Croatian tax residents who receive a pension from abroad are generally required to pay tax on such income in Croatia as employment income, unless an international treaty provides otherwise.

Following the abolition of income tax on pensions in Croatia:

- foreign pensions will no longer be subject to taxation in Croatia, regardless of the country of origin;

- the exemption from taxation will arise from domestic legislation rather than from the application of a DTT;
- however, the tax treatment in the source country will remain unchanged.

This means that, for foreign pensions, it will still be necessary to analyse the relevant DTT (if one exists) in order to determine:

- whether the source country has the right to tax the pension income; and
- whether there is any obligation to pay tax outside Croatia.

Practical implications

In practice, various scenarios may arise:

- if the source country does not have taxing rights, the pension may remain entirely tax-exempt;
- if the source country retains taxing rights, a tax liability may arise in that country, but no additional taxation is expected in Croatia;
- if no DTT exists, only the rules of the source country will apply, meaning that the source country may tax the pension, while no additional taxation is expected in Croatia.

Accordingly, although the abolition of pension taxation in Croatia represents a significant simplification and reduction of the tax burden, the international tax aspects of pension income remain relevant.

Conclusion

The abolition of income tax on pension income from 2027 means that Croatia will no longer tax either domestic or foreign pensions. However, in the case of foreign pensions, it will still be necessary to analyse the tax rules of the source country and any applicable DTTs to determine whether any tax liability may arise outside Croatia.

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