Additional corporate income tax on excess profit margins

Key information from The Draft proposal of amendments to the Corporate Income Tax Act

IMPORTANT NOTE: *This text is based on the Draf proposal of the amendments to the Corporate Income Tax Act, which is currently subject to public consultation. The consultation is open from 31 July to 30 August 2026. The final wording of the Act, its scope, the calculation methodology and the implementing rules may change before enactment.*

What is being proposed?

The Ministry of Finance has published the Draft proposal of the amendments to the Corporate Income Tax Act, which proposes the introduction of an **additional corporate income tax on excess profit margin** as a temporary, one-off anti-inflationary measure for the tax period commencing in 2026.

The proposed measure is intended to additionally tax the portion of adjusted profit arising from a significant increase in the profit margin in 2026 compared with previous periods. The proposed tax rate is 50%.

Who would be in scope?

Under the currently published Draft, the obligation to calculate and potentially pay the additional tax would apply to corporate income taxpayers that meet both of the following conditions:

- in the tax period beginning in 2026, they qualify as medium-sized or large companies under the criteria prescribed by accounting legislation; and
- they generate more than 50% of their revenue in Croatia during 2026.

Newly established independent companies filing a corporate income tax return for their first tax period would be exempt from the application of the measure. According to the explanatory notes to the Draft, this exemption would not apply to companies formed through status changes such as demergers and spin-offs.

Special rules are expected to apply to status changes and other changes to the tax period.

Determining the excess profit margin

Step	Proposed approach
1. Adjustments	For 2026 and each preceding period from 2023 to 2025, revenues, expenses, profit and loss reported in the corporate income tax return would be adjusted for the prescribed items.
2. Profit margin	The profit margin would be calculated as the ratio of adjusted profit to adjusted total revenues for each period under review.
3. Reference margin	The reference profit margin is determined for the reference periods. If adjusted profit was generated in all three periods, the average is used, while special rules are prescribed for cases where adjusted profit was not determined in all reference periods.
4. Threshold and tax base	If the 2026 profit margin exceeds the relevant reference profit margin increased by 15%, a profit margin increase indicator would be determined. The resulting indicator would be applied to adjusted total revenue for 2026 to determine the additional tax base.
5. Tax liability	A 50% rate would be applied to the tax base determined, subject to the proposed reduction of the total annual corporate income tax liability to account for the regular corporate income tax relating to the same tax base.

Proposed adjustments

The Draft provides for the exclusion of certain one-off, extraordinary and financial items, including:

- dividends and profit shares;

- certain income from the debt write-offs and income in pre-bankruptcy and bankruptcy proceedings;
- income from damage received and amounts awarded in court proceedings;
- financial income and expenses, subject to a prescribed exception for certain financial institutions;
- depreciation of long-term tangible and intangible assets used in the production of goods and provision of services;
- realised and unrealised effects of financial assets;
- effects of status changes and income and expenses of foreign permanent establishments;
- effects of disposals of long-term term tangible and intangible assets used in the production of goods and provision of services, shares and ownership interests, including the time condition for certain transactions carried out by 30 June 2026.

Filing and payment

According to the Draft, the additional tax would be reported on a special form for the entire tax period beginning during 2026. The additional tax liability would fall due on the same date as the regular corporate income tax liability for the same tax period, and the tax would be paid into a separate account.

The calculation details, the content of the form, the filing method and the payment account should be regulated by the Corporate Income Tax Regulations, which, according to the Draft, should be aligned within 90 days of the Act entering into force.

Recommendation

A reliable assessment of whether the proposed measure may apply will require an analysis of data for 2023 to 2025, the revenue and expense structure, and the projected financial result for 2026, taking into account the proposed specific adjustments.

We recommend that medium-sized and large companies generating the majority of their revenue in Croatia carry out a timely preliminary review of the potential impact of the measure on their business.

If you consider that the proposed measure could be relevant to your company, we would be pleased to discuss a possible approach to a preliminary assessment of the applicability of the rules and the potential tax impact.

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