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Mind the Gap 2026: Country fiche – Croatia

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Mind the Gap 2026: Boosting public finances through joint efforts to reduce tax gaps and improve compliance

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Country fiche: Croatia

Summary box: Areas of Strength and Areas for Improvement

Areas of Strength

- **Croatia's VAT compliance gap was lower than the EU average in 2023, at 8% of the VAT Total Tax Liability (VTTL).** Although still higher than it was in 2019, the VAT gap decreased from 2022 to 2023. Measures to digitalise the tax administration and the introduction of mandatory electronic invoicing and real-time transaction reporting are expected to improve VAT compliance in the future.

- **Croatia operates an advanced and data-driven compliance risk management system.** The system is guided by a formal strategy, integration of AI and behavioural insights to improve compliance.

Areas for Improvement

- **Croatia's tax system entails compliance burdens that are comparatively high**. Only 29% of taxpayers report that completing their tax return is easy, well below the EU average, while businesses appear to rely comparatively heavily on accounting and tax services. Several recent reforms have focused on modernising tax administration and simplifying VAT reporting through digitalisation. Continued efforts to streamline compliance procedures and to improve the taxpayer experience could further reduce administrative burdens for businesses and individuals. For example, there is currently no pre-filling of tax returns for personal income tax (PIT) and VAT.

- **There is scope for further work on quantifying compliance tax gaps.** Robust estimates can guide policy makers and the tax administration in their efforts to strengthen tax collection. Over time, more effective compliance efforts combined with lower compliance burdens could help curbing the shadow economy, which is estimated to be relatively large.

- **The effectiveness of tax expenditures could be reviewed and evaluated more systematically**. Tax expenditures total EUR 4.1 billion, with reduced VAT rates being the main contributor. Distributional impacts vary; for corporate tax expenditures, complex conditions may create inefficiencies. For example, tax incentives for research and development have had low uptake, but recent reforms under the Croatian recovery and resilience plan increased deductible amounts and simplified procedures, which may improve their effectiveness.

- **Croatia could make better use of the available advanced tools for administrative cooperation** as set out in Regulation 904/2010 and the Directive on administrative cooperation in the field of taxation (DAC) to facilitate cooperation on cross-border tax issues.

1. Introduction and policy context

1.1. Snapshot of the tax system

Croatia is the EU country with the strongest reliance on consumption taxes. Tax revenue (including social contributions) increased to 38.4% of GDP in 2024 (from 36.7% in 2023), reducing the gap with the EU average to 1.0 percentage points (pps) ([1]). Croatia obtains almost half of its tax revenue from consumption taxes (48.1% in 2024, almost twice as high as the EU average of 26.8%). By contrast, labour (36.5% of total tax revenues) and capital (15.4%) taxes have a low weight in the tax mix compared to the EU average (51.5% and 21.6%, respectively). Looking into specific tax types, recipes from VAT amounted to 13.3% of GDP, compared to 7.1% in the EU. Revenues from environmental taxes are also comparatively high (3.4% of GDP, 1.3 pps above the EU average), in contrast to the low yield from property taxes (0.8% of GDP compared to 1.8% in the EU).

Croatia's tax-benefit system reduces income inequality to a limited extent due to the modest role of labour taxation in the overall tax mix. The tax and benefit system reduced the Gini coefficient by 5.8 pps in 2024, almost 2 pps below the EU average of 7.8 pps ([2]). The difference in the tax wedge ([3]) between high-income (167% of average wage) and low-income earners (50% of average wage) was of 8.9 pps in 2025, compared to an EU average of 12.5 pps, which reflects limited progressivity of the labour tax system. The redistributive impact of PIT allowances and deductions is limited ([4]). Moreover, the general tax allowance for dependent family members reduces work incentives for second earners. Income concentration, as measured by the income quintile share ratio (S80/S20), was 4.78 in 2025 (income reference year 2024), slightly above the EU average of 4.62 ([5]). Finally, the at-risk-of-poverty or social exclusion rate (AROPE) ([6]) is slightly below the EU average (20.7% vs 20.9%).

In 2026, Croatia has received the following country-specific recommendation (CSR) in the area of taxation ([7]):

[1] Data on tax revenues are based on European Commission: Data on Taxation Trends, edition 2026 (reference year 2024), which are produced by DG Taxation and Customs from ESA table 9 and National Tax List data, as collected and validated by Eurostat. The 2027 edition (reference year 2025) will be published in the first quarter of 2027. Recent Eurostat release shows a tax-to-GDP ratio of 38.7% in 2025, compared to an EU average of 39.7% (data of 30/10/2026 on [GOV_10A_TAXAG]).

[2] European Commission, DG ECFIN calculations based on EU-SILC survey data. A Gini coefficient of 0 expresses perfect equality where everyone has the same income, while a coefficient of 100 expresses full inequality where only one person has all the income. The difference between the "gross" (excluding pensions from social transfers) and the "net" Gini coefficient, i.e. before and after application of the tax-benefit system, reflects the difference between market income and disposable income.

[3] The tax wedge is an indicator of the tax burden on labour that can be assessed at different earnings levels. It is calculated as the sum of personal income tax, employee social-security contributions, employer social-security contributions and other mandatory contributions, net of cash family benefits where relevant, expressed as a percentage of total labour costs (composed of the gross wage plus employer social-security contributions). Data are based on the EUROMOD model, calculated by the Joint Research Centre of the European Commission. Unless indicated differently, values indicated in this country fiche refer to single earners.

[4] Turrini et al., (2024), Tax Expenditures in the EU: Recent Trends and New Policy Challenges.

[5] The income quintile ratio (S80/S20) is a headline indicator in the EU Social Scoreboard used to monitor income inequality. It measures the ratio between the total equivalised disposable income received by the top 20% of the population and the bottom 20%.

[6] Share of people living in households experiencing at least one of the three poverty and social exclusion risks: risk of poverty, severe material and social deprivation, and/or living in a household with very low work intensity.

[7] https://data.consilium.europa.eu/doc/document/ST-11123-2026-INIT/en/pdf.

- *Improve the efficiency of public expenditure by strengthening the role of regular spending reviews as integral part of the budgetary framework. Review the effectiveness of tax expenditures. Continue advancing the reform of recurrent property taxation by completing the necessary administrative infrastructure and introducing a value-based system.*

Several projects under the Technical Support Instrument (TSI) address CSRs. The Ministry of Finance is involved in a project to implement effective green budgeting practices. Additionally, ongoing initiatives aim to enhance the spending review methodology, and a comprehensive reform project seeks to modernize accounting and state budget execution processes.

1.2. Tax complexity and simplification measures

1.2.1. Measures of tax complexity

Taxpayer perceptions point to relatively elevated compliance burdens. Survey-based evidence from the Tax Complexity Index (TCI) places Croatia around the middle of the EU distribution, ranking 19th among Member States. The underlying components of the TCI suggest that complexity arises somewhat more from the tax code than from administrative procedures ([8]). However, citizen perceptions are noticeably less favourable than the EU average: only 29% of respondents report that completing their tax return is easy, compared with 49% in the EU, although reliance of individuals on professional assistance remains relatively limited at 4% ([9]). A comparatively large share of respondents also report that they do not need to file a tax return, reflecting the structure of the Croatian tax system and filing obligations. The accounting, bookkeeping and tax consultancy sector accounts for around 0.6% of gross operating surplus, below the EU average of 0.9% ([10]). While this indicator is influenced by several factors, it does not point to an unusually important professional services sector or particularly strong demand for specialised tax and accounting expertise ([11]).

The frequency of changes to the tax code appears moderate. Croatia recorded 7 tax changes entering into force in 2025, below the EU average of around 14 ([12]). Previous years saw 17 tax changes in 2024, 8 in 2023 and 7 in 2022. In each year, legislative activity remained below the corresponding EU average, suggesting a relatively stable tax policy environment. Several measures adopted in 2025 concern VAT and tax administration, including the abolition of certain VAT

[8] The Tax Complexity Index (TCI), developed under the Global MNC Tax Complexity Project, measures the complexity of countries' corporate income tax systems as faced by multinational firms. Based on survey data from tax professionals, it captures both the complexity of tax rules (tax code) and administrative procedures (tax framework), with values ranging from zero (not complex) to one (extremely complex).

[9] European Commission (2025), Flash Eurobarometer 562: Citizens' attitudes towards taxation, fieldwork conducted between 9 and 17 April 2025. Available at: https://europa.eu/eurobarometer/.

[10] The share of gross operating surplus generated by the accounting, bookkeeping and tax consultancy sector provides an indication of the sector's economic importance. While not a direct measure of tax complexity, a comparatively large share may point to a relatively important professional services sector and, indirectly, to greater demand for specialised tax and accounting expertise.

[11] While some cross-border provision of accounting, tax consultancy and related services may be captured through imports and exports of services, available evidence suggests that such flows are relatively limited. In particular, data from the Eurostat's EU inter-country supply table at basic prices (reference year 2023) indicate that cross-national transactions in these services represent only a small share of overall activity, if any, suggesting that their impact on the interpretation of domestic sector size is likely to be limited.

[12] The information is based on the tax measures reported by national administrations in the Joint OECD-European Commission Annual Tax Policy Reform Questionnaire, by aggregating and processing the responses received to the 2026 questionnaire. Responses to the 2026 questionnaire are relative to tax policy measures self-reported by the Member States that were implemented, legislated, or announced in each country between 1 January and 31 December 2025. While comprehensive, the list of tax measures is non-exhaustive.

reporting forms, extension of VAT filing deadlines and amendments to the General Tax Act aimed at simplifying tax compliance. Although the number of reforms is not unusually high, businesses and taxpayers will need to adapt to the new digital reporting requirements and administrative procedures in the short run. Over the longer term, however, these reforms are intended to simplify tax compliance and reduce administrative burdens.

1.2.2. National simplification efforts

Croatia has rolled out a series of tax reform packages simplifying tax compliance. The "Fiscalisation 2.0 system" introduces mandatory electronic invoicing and real-time transaction reporting for business-to-business transactions, supported by the Recovery and Resilience Facility. Starting from January 1, 2026, electronic invoicing became mandatory for all domestic business-to-business (B2B) transactions for VAT-registered companies in Croatia. With the implementation of mandatory electronic invoicing, the government abolished redundant forms: The U-RA form (list of incoming invoices) and the PPO form (the specification of outgoing supplies under domestic reverse charge). To help micro–businesses, Croatia also increased the mandatory VAT registration threshold from EUR 40 000 to EUR 60 000 amid persistent inflationary pressures.

1.3. Measures of the non-observed economy and the shadow economy

Estimates of economic activities outside the formal economy are relevant for gauging tax gaps. The non-observed economy (NOE) is an official figure provided by national statistical authorities estimating all economic activities that may not be captured in the basic data sources used for compiling national accounts. It includes underground, informal, illegal, and household self-use production, as well as activities missed due to imperfect data collection ([13]). The shadow economy is an analogous but narrower concept— used in the economic literature and measured via macroeconomic models — that usually encompasses only legal, market-based productive activities deliberately concealed from public authorities to evade taxes or regulations. Due to limitations and methodological differences between the two approaches, model-based estimates of the shadow economy paradoxically often turn out to be considerably higher than NOE-based estimates.

Specifically, recent data from official sources ([14]) allow the size of the non-observed economy (NOE) in Croatia to be estimated at 6.2% of GDP in 2022. The NOE mainly comprises the informal economy (2.7%) and underground economy (2.0%), while statistical deficiencies and the illegal economy represent 0.9% and 0.6% of GDP, respectively. Croatia thus records a NOE below the EU average (7.4% of GDP) ([15]). The largest part of non-observed economy is concentrated in 'Accommodation and food service activities' (1.8% of total GVA). At industry level, the highest shares of NOE are presented by 'Other service activities' (40.5% of its GVA) and 'Accommodation and food service activities' (26.9%).

[13] Statistical deficiencies (N7) are related to incomplete, not collected or not directly collectable data. See Fernandes, A. (2025), The non-observed economy in the national accounts: New evidence for EU and EFTA Member States - available at https://www.sciencedirect.com/science/article/pii/S0313592625000712 - for the definitions of the other components of NOE: Producers deliberately not registering (N1); Illegal economy (N2); Producers not required to register (N3); Registered legal persons not surveyed (N4); Registered entrepreneurs not surveyed (N5); Producers deliberately misreporting (N6). Informal economy = N3+N4+N5. Underground economy= N1+N6. In other words, the informal economy specifically covers unregistered or small-scale unincorporated enterprises run by households.

[14] For data and documents used for calculations by TAXUD, see Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches).

[15] The (unweighted) EU average does not include Luxembourg, which has not yet sent their data to EUROSTAT.

Different models produce substantially different estimates for the shadow economy, reflecting the complexity of such estimation. As in most EU Member States, model-based estimates of the shadow economy for Croatia are higher than the non-observed economy estimate discussed above. In 2022, the shadow economy in Croatia represented 29.7% of GDP, according to estimates by Schneider and Asllani for the European Parliament ([16]). This ratio is 12.1 percentage points above the EU-27 average, and it has decreased compared to 2003 (32.3% of GDP). Several other studies provide estimates of similar magnitude for the size of the shadow economy ([17]). However, using a currency demand approach (CDA), a recent study by EY ([18]) reports lower estimates for the Croatian shadow economy at 9.3% of GDP in 2023 (EU average 7.9%), down from 19% in 2000 (EU average 13.2%).

2. Compliance tax gaps

2.1 Overview

Croatia does not estimate compliance tax gaps. Croatia is not among the EU Member States that officially estimate or publish national tax gaps. Estimation activities could help Croatia to close compliance gaps, especially in light of its relatively large shadow economy.

Croatia has contributed to the TADEUS/Fiscalis project on estimating tax gaps. The Fiscalis Project Group on Tax Gap Estimation, a collaborative initiative launched with the support of the European Commission, aims to develop a harmonised approach to estimating tax gaps across EU Member States ([19]). Croatia's tax administration and the Bureau of Statistics were involved in the first cycle of the project, which concluded in 2025. The second cycle of the project was launched in 2026.

2.2 Compliance tax gaps in VAT

For 2023, the VAT compliance gap ([20]) in Croatia was estimated at around 8% of the VAT Total Tax Liability (VTTL) ([21]), or approximately EUR 900 million. After increasing from around 4% in 2019 to 12% in 2021, it decreased again in 2023; though remaining above the 2019 level ([22]). Croatia's VAT compliance gap remained below the EU average of 9.5% in 2023. This decrease was linked to a decline in the share of services in GDP, including a decline in the growth in consumption of hard-to-tax service categories (such as recreation, restaurants and accommodation) and a reduction in the growth of tourism, as well as a decrease in bankruptcy declarations.

Croatia continues to digitalise tax administration and compliance processes in VAT, aiding collection efforts. Most notably, mandatory electronic invoicing and real-time transaction reporting have been introduced as part of the "Fiscalisation 2.0 system" (see section 1.2.2.).

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[16] This study uses a MIMIC approach (Multiple Indicator Multiple Cause). European Parliament (2022), Taxation of the informal economy in the EU. Study available at: https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734007/IPOL_STU(2022)734007_EN.pdf.

[17] See Fernandes op. cit. (2025) for an overview of various studies.

[18] The report is available at https://www.ey.com/content/dam/ey-unified-site/ey-com/en-gl/insights/tax/documents/ey-gl-shadow-economy-report-02-2025.pdf.

[19] For details, please refer to the TADEUS website, the FISCALIS programme website and the Final Report of the Project.

[20] The VAT compliance gap is an estimate of revenues lost due to VAT fraud, evasion and avoidance, bankruptcies and financial insolvencies, or miscalculations.

[21] The VAT Total Tax Liability (VTTL) is the theoretical tax revenue that would be collected in a situation of perfect taxpayer compliance, assuming an unchanged net VAT base.

[22] See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., VAT gap in Europe – Report 2025, Publications Office of the European Union, Luxembourg, 2025, https://data.europa.eu/doi/10.2778/7868422.

2.3 Compliance tax gaps in corporate and personal income tax

Croatia does not estimate CIT or PIT compliance gaps. Estimating CIT and PIT compliance gaps could help policy makers and the tax administration to identify problems and develop solutions related to CIT and PIT tax collection.

European Commission estimates suggest a below-average CIT compliance gap in Croatia. Based on a methodology developed by the Joint Research Centre which relies on a top-down approach using national accounts data and estimates of the non-observed economy produced by national statistical offices, the CIT compliance gap of Croatia is estimated at around 8.1% of collected CIT revenues based on 2022 data (20F[23]). Based on the same methodology, the (unweighted) average CIT compliance gap is 9.2% of collected CIT revenues across all Member States. Compared to an earlier estimate of around 7.6% in 2019, this suggests a broadly stable level over time, remaining somewhat below the EU average.

2.4 Other compliance tax gaps

The Commission continues its work on excise gap estimation, developing and scrutinising methodologies with experts from over 20 Member States, with the aim of delivering more robust estimates that better support policy and operational work. This work also illustrates Member States' growing engagement in the field.

While Croatia does not currently estimate excise tax gaps, it devotes resources to strengthening EU cooperation on excise matters through its participation in the Fiscalis project group on Excise Gap and Risk.

There are no other compliance tax gap estimates or related activities for Croatia. There are no official programmes or published figures for compliance gaps related to other tax measures.

3. Policy Tax Gaps

3.1 Tax expenditure reporting and evaluation

Croatia annually reports tax expenditures on the basis of guidance set out in law. Law no. 107/24 in force since 14 September 2024 requires its publication on the website of the Ministry of Finance and the Tax Administration, for the year preceding the previous year ([24])([25]). Tax expenditures are reported as regards value-added taxes, social security contributions, personal income tax, and corporate income tax. Available information includes the type of tax expenditure, the legal base, beneficiaries, purpose, and revenue forgone. In addition, tax deductions and exemptions not considered tax expenditures are also provided.

[23] European Commission estimates are based on a top-down methodology for approximating CIT compliance gaps using national accounts data. The approach relies on exhaustiveness adjustments made by national statistical offices to Gross Operating Surplus, Gross Value Added and Gross Domestic Product in order to account for non-observed economic activity in the compilation of GNI. The method provides a harmonised proxy for domestic underreporting of corporate income, but does not capture all sources of CIT revenue losses, in particular those related to international profit shifting or other forms of legal tax optimisation. For further information on the data sources, underlying assumptions and methodological caveats, see Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches).

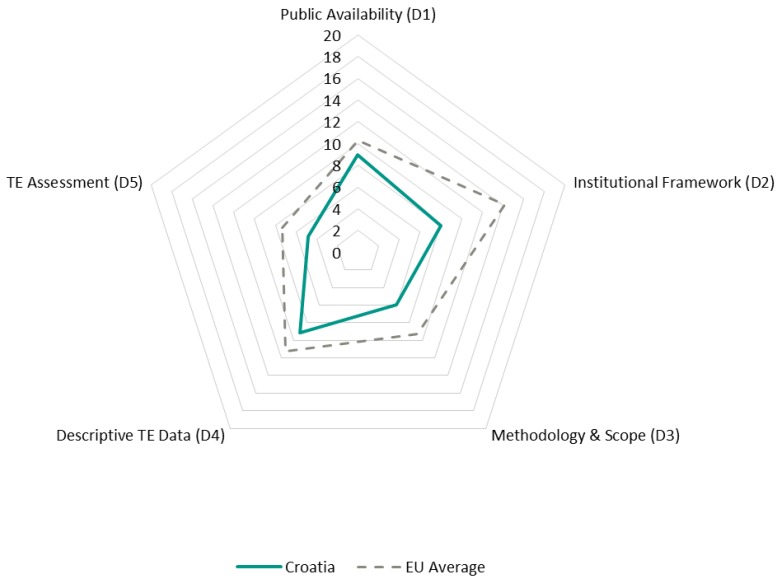
[24] Ministry of Finance of Croatia, Naputak o informacijama o učinku poreznih rashoda na prihode (Guidance on information on the impact of tax expenditures on revenues), Narodne novine no. 107/24, https://porezna-uprava.gov.hr/Propisi#3299|3324.

[25] Ministry of Finance of Croatia, Katalog poreznih rashoda za 2024. godinu (Catalogue of Tax Expenditures 2024), https://porezna-uprava.gov.hr/hr/porezni-rashodi/4008.

Croatia reports 46 tax expenditure provisions with total tax expenditures of EUR 4.1 billion in 2024 (4.8% of GDP), of which more than half stem from value-added tax. EUR 2.4 billion or 58% of the total are due to reduced VAT rates of 13%, 5% and 0% ([26]). Tax expenditures related to personal income tax and social security contributions make up 33% of the total revenue forgone, while provisions in corporate income taxation account for the remaining 9% (see Figure 1). This is an increase compared to 2023, when a total of EUR 3.5 billion in revenues forgone were reported.

Despite Croatia's regular reporting of tax expenditures, Global Tax Expenditures Transparency Index (GTETI) analysis finds that transparency and comprehensiveness of tax expenditure reporting in Croatia are below the EU average. Possibly, GTETI does not yet reflect the reporting on the basis of the 2024 law so that a more favourable evaluation might be expected for the future. Figure 1 depicts the GTETI results for the five dimensions analysed in comparison to EU averages ([27]). Maximum value for each dimension is 20. Croatia is on par with the EU average on Public Availability (9.00 vs 10.26). However, Institutional Framework is below the EU average (8.00 vs 14.19), Methodology and Scope is below the EU average (6.00 vs 9.28), Descriptive Tax Expenditure Data is below the EU average (9.13 vs 11.28), and Tax Expenditure Assessment is below the EU average (4.80 vs 7.34), indicating no submission to parliament, no integration in the budget proposal, no integration in the medium-term strategy, indicating incomplete coverage of tax types, no benchmark definition.

Figure 1: Croatia vs EU average — GTETI v2.1 dimension scores (max 20 per dimension)



Source: GTETI v2.1.

[26] This value is relatively close to the VAT rate gap estimated under DG TAXUD's VAT gap in Europe study (see section 3.2).
[27] See the Global Tax Expenditures Transparency Index (GTETI) companion paper (2026) and Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches) for details. The GTETI summarises information in five dimensions. These are (1) Public availability — whether a TE report exists and is accessible; (2) Institutional framework — its legal mandate, periodicity, and integration into the budget process; (3) Methodology and scope — the benchmark definition, estimation method, and coverage of taxes; (4) Descriptive tax expenditure data — the granularity and classification of reported provisions; and (5) Tax expenditure assessment — the quality of revenue-forgone estimates and whether TEs are evaluated for effectiveness.

Croatia does not systematically evaluate tax expenditures. A comprehensive review of tax expenditures could help Croatia to identify and redesign tax expenditures that are too complex and/or that do not effectively achieve their intended policy objectives, including income redistribution or environmental incentives.

3.2 Policy tax gaps in VAT

Croatia has had relatively few recent changes to VAT rates. Croatia has the highest standard VAT rate in the EU at 25%, and its main reduced rates are 5% and 13%. The high standard VAT rate also leads to a relatively high VAT rate gap. Croatia temporarily reduced the VAT rate for natural gas and heating, fuel wood, pellets, briquettes and wood chips from 13% to 5% in 2022 and the reduction is set to remain in place until 31 March 2027.

Revenues forgone due to the application of reduced rates and national policy-driven exemptions reached nearly EUR 4 billion in 2023 ([28]). The national policy-driven VAT exemption gap ([29]) was estimated at around EUR 1 billion in 2023, or 6% of the notional ideal revenue ([30]), while the EU average was 11%. The VAT rate gap ([31]) was estimated at around EUR 3 billion in 2023, or 15% of the notional ideal revenue, higher than the EU average of 12%.

Tax simulations indicate that Croatia's reduced VAT rates in 2025 are concentrated in a small number of categories, led by 'food and beverages' ([32]). 'Food and beverages' accounts for the largest share of forgone revenues at 50.0%, well above the EU mean share of 39.8%. 'Housing, water and electricity' comes second at 15.3%, more than double the EU mean share of 8.5%. 'Health' ranks third at 13.8%, well above the EU mean share of 10.4%. These three categories account for 79.1% of Croatia's total forgone revenue.

Croatia's reduced VAT rates lower inequality as measured by the Gini coefficient by 1.12 pps, above the EU average reductions of 0.50 pps. 'Food and beverages' contributes 0.81 pps (72.4% of the total), above the EU mean contribution of 0.32 pp. 'Housing, water and electricity' contributes 0.22 pps (19.6% of the total), above the EU mean contribution of 0.07 pps ([33]).

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[28] See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., VAT gap in Europe – Report 2025, Publications Office of the European Union, Luxembourg, 2025, https://data.europa.eu/doi/10.2778/7868422.

[29] The national policy-driven VAT exemption gap represents the part of the VAT policy gap that can in principle be influenced by national policies on VAT exemptions. In practice, it consists of revenue forgone from services falling under Article 137 (such as real estate and certain financial services), from the SME scheme, and from national exemptions applied under standstill clauses or derogations. The VAT policy gap refers to the revenue lost due to the application of VAT exemptions and reduced, super-reduced, and zero VAT rates on selected products.

[30] The notional ideal revenue is the benchmark VAT revenue that assumes perfect taxpayer compliance in a situation where the current standard VAT rate is applied to all final consumption and household, government, and NPISH investment.

[31] The VAT rate gap refers to the portion of the VAT policy gap resulting from revenues lost due to the application of reduced, super-reduced, and zero VAT rates on selected products.

[32] The VAT rate gap is analysed here using EUROMOD's household consumption tool. No behavioural adaptation is considered. Note that VAT rates are mostly not an efficient tool for redistributive policies, in part due to incomplete pass-through to consumer prices, in part due to limited targeting of reduced rates. For more details on assessing the impacts of reduced VAT rates with EUROMOD, see Turrini et al. (2024), Tax Expenditures in the EU: Recent Trends and New Policy Challenges, European Commission, European Economy Discussion Paper 212; Ricci et al. (2026), Fiscal Costs and Redistributive Effects of Reduced VAT Rates in the EU, European Commission, European Economy Discussion Paper 244; Trzcinski and Amores (2026), The VAT Policy Gap and Redistribution in the European Union 2025, European Commission, Seville, JRC14876; and Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches).

[33] See also 2026 Semester Country Report for Croatia, SWD_2026_211_1_EN_autre_document_travail_service_part1_v3.docx.

3.3 Policy tax gaps in corporate income tax

Croatia reports six tax expenditures in corporate income taxation, with a revenue forgone of EUR 378 million. The largest among these tax expenditures is the reduced rate of 10% (rather than the standard rate of 18%), with an estimated revenue forgone of EUR 224 million. The reduced rate applies to taxpayers with an annual income of up to EUR 1 million, and its aim is to stimulate economic growth. Investment incentives due to the Investment Promotion Act (and its predecessor) add up to EUR 142 million of tax expenditures. Dependent on the amount of the investment and the number of jobs created, CIT is reduced by 50, 75 or 100% for a period of ten years. However, complex conditions may discourage companies from making full use of these incentives. Tax incentives for research and development have low uptake, although recent reforms under the recovery and resilience plan increased deductible amounts and simplified procedures, which may improve their effectiveness. Other tax expenditures related to research and development, education and training, and special economic zones have a relatively low impact on the budget. Moreover, the carry-forward of tax losses is considered a structural provision of the tax system, with an estimated revenue forgone of EUR 58 million in 2024.

3.4 Policy tax gaps in personal income tax

Croatia reports revenues forgone of EUR 1.34 billion due to tax expenditures related to personal income taxation and social security contributions. Of this amount, EUR 388 million are due to personal income taxes, stemming from 11 provisions, and EUR 952 million are due to social security contributions, stemming from 26 provisions. For personal income tax, the largest tax expenditures reduce the tax liability for young employees up to 30 years of age (EUR 217 million) and for pensioners (EUR 141 million). Regarding social security contributions, the biggest budgetary implications stem from the exemption from health insurance contributions obligations for young employees for up to five years (EUR 461 million), and reduced pension insurance contributions (EUR 225 million.) In addition, the basic allowance not subject to personal income taxes is considered to be a structural provision of the tax system. The national tax expenditure report nevertheless provides a revenue forgone estimate.

Tax-simulations suggest that PIT-related tax expenditures in Croatia in 2025 slightly reduce inequality ([34]). PIT-related tax expenditures included in the analysis were estimated to imply revenue forgone equal to 25.1% of actual PIT revenues, above the EU average of 19.1% ([35]). They were estimated to reduce the Gini coefficient by 0.18 pps compared to an EU average reduction of 0.46 pps.

Family-related TEs account for the largest share of revenue forgone (23.9% of PIT revenue). Family-related TEs (23.9% of PIT revenue) reduce the Gini coefficient by 0.17 pps. Tax expenditures related to health (0.9% of PIT revenue) have a negligible distributional effect. Overall,

[34] Simulations are based on EUROMOD and do not account for behavioural changes. For more details on assessing the impacts of tax expenditures in the PIT with EUROMOD, see Turrini et al. (2024), Tax Expenditures in the EU: Recent Trends and New Policy Challenges, European Commission, European Economy Discussion Paper 212; Leventi et al. (2026), Personal Income Tax Expenditures in the EU, European Commission, Seville, 2026, JRC148748; and Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches).

[35] According to the European Commission's taxation trends data, PIT revenues in Croatia amounted to approximately EUR 3.4 billion in 2024. This would imply revenue forgone of approximately EUR 0.9 billion due to PIT tax expenditures according to the microsimulation (25.1% of EUR 3.4 billion).

tax expenditures related to PIT in Croatia are progressive and result in good distributional outcomes albeit at relatively high costs.

4. Effectiveness of tax administration

4.1 Registration/identification of taxpayers

Croatia operates a highly unified taxpayer identification system, with the OIB serving as the core identifier across all major taxes. Individuals and legal entities are assigned a single personal identification number (OIB) ([36]), which functions as the primary tax identifier for PIT, CIT, and VAT (with the VAT number simply prefixed by "HR" for EU transactions). This system ensures consistency and reduces administrative burdens, as the OIB is validated by the Commercial Court and Tax Administration before assignment, minimising risks of inconsistencies or abuse.

Croatia's VAT registration is streamlined and digitalised, with robust pre-registration checks but limited real-time automation. Registration is conducted through the ePorezna portal ([37]), offering in addition centralised account access, secure communication, online payments and letting taxpayers submit, correct, and manage VAT returns digitally. The Tax Administration performs preliminary checks before approving VAT registration. A "Potential VAT Taxpayers" list, generated monthly by the Risk Analysis Department, identifies businesses exceeding the EUR 60 000 turnover threshold and prompts local tax offices to verify compliance. Full automation of VAT registration upon company incorporation is not yet standard ([38]).

The VAT registration process combines manual verification with emerging risk-based tools, though automation and real-time integration are still limited. The Tax Administration relies on pre-registration checks by the Commercial Court, which verifies applicant authority, documentation, and business legitimacy, while the Risk Analysis Department supplements this with targeted monitoring. Rejections or suspensions are triggered for unreachable applicants or inconsistencies, with swift enforcement mechanisms for non-compliance. While EU data-exchange tools and third-party analytics are increasingly used for cross-border and e-commerce risks, systematic real-time risk assessment remains underdeveloped, with no fully integrated IT system in place ([39]).

Croatia is developing a more structured approach to e-commerce monitoring, though systematic oversight remains limited. While Croatia lacks a dedicated e-commerce register, a newly established Tax Administration working group is implementing a proactive monitoring framework that combines external analytics (e.g. SimilarWeb for traffic and customer insights), delivery company data (cross-checked with tax records and One Stop Shop (OSS) filings), and EU tools (CESOP ([40]) and TNA ([41])) to track payment flows and transaction networks. This strategy aims

[36] Personal identification number (PIN/OIB) information on the general rules and assigning of OIB - Porezna uprava.
[37] ePorezna - Jedinstveni portal Porezne uprave.
[38] Findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection).
[39] Ibidem.
[40] CESOP is an EU-wide system established under Directive (EU) 2020/284 to support the fight against VAT fraud in e-commerce. It requires payment service providers to report cross-border payment data on a quarterly basis to national tax authorities, which then transmit the information to CESOP. The system centralises and analyses this data, enabling Member States to detect undeclared online sales, identify fraudulent traders, and enhance administrative cooperation in combating cross-border VAT fraud.
[41] TNA (Transaction Network Analysis) is Eurofisc's IT tool for jointly analysing cross-border VAT transaction data to detect fraud; Eurofisc is the EU network of tax authorities exchanging and processing that information.

to identify unregistered traders and enhance compliance, though full operational integration is still in progress. The OSS system is linked to the Taxpayer Register, automatically flagging taxpayers for exclusion after three consecutive failures to file or pay, but broader real-time oversight remains limited to case-by-case risk analysis ([42]).

Croatia's qualification of taxpayers as potential MTIC fraudsters takes rather long, and risk signals on potential missing traders are not shared with other Member States until field checks or an on-site verification have been carried out. The invalidation of a VAT identification number is much faster. Although Eurofisc fraud alerts or signals can trigger action, the Croatian qualification procedure overall remains relatively burdensome, and this may overall delay the swifter invalidation of suspected missing traders' VAT numbers needed to prevent further MTIC fraud.

4.2 Tax filing and assessment

Croatia's tax system is highly digitalised. PIT, CIT, VAT are filed electronically, supported by e-government tools. The system connects with other government databases to streamline filing processes by reusing existing data from public authorities. Since 2013, businesses must electronically transmit cash invoice data to the tax administration in real time. Croatia also mandates electronic invoicing for business-to-government (B2G) transactions through the eRačun system ([43]).

Croatia has no pre-filling for PIT or VAT in 2024, though it conducts automated annual PIT assessments for employment and pension income using existing tax administration data. Overall, this remains a clear area for improvement following up on progress in digital data integration ([44]). For VAT, while the system reuses public-sector data (such as personal records and tax registers) through the Centre of Shared Services (CDU) and enables online VAT status updates and corrections, taxpayers must manually enter VAT return data, as the system does not automatically populate returns.

E-filing uptake in Croatia is very high for CIT and VAT, but somewhat lower for PIT ([45]). In 2024, the e-filing rate reached 96.9% for CIT, around the EU average of 97.3%, and 100.0% for VAT, slightly above the EU average of 99.2%. For PIT, the e-filing rate stood at 79.9%, below the EU average of 88.4%, indicating scope to further expand digital take-up in this category.

Croatia provides strong digital tax support through *ePorezna* ([46]), the Tax Administration's online portal, where authenticated users can access records, file returns, track case status, exchange documents, review liabilities, and manage VAT registrations securely. The *mPorezna* mobile app offers key services on the go, such as online calculators, public chatbots, AI-assisted guidance, and proactive personalised nudges to further support taxpayers.

Croatia makes a thorough use of data obtained through automatic exchange of information (AEOI), for personal income tax purposes. AEOI is conducted under the Directive

[42] Findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection).
[43] Novosti | Fiskalizacija 2.0 / eRačun.
[44] International Survey on Revenue Administration data. https://data.imf.org/en/datasets/ISORA:ISORA_LATEST_DATA_PUB
[45] Ibidem.
[46] https://e-porezna.porezna-uprava.hr/Pages/Ousluzi.aspx.

on administrative cooperation in the field of taxation (DAC) ([47]), i.e. DAC1 ([48]), DAC2 ([49]), and DAC7 ([50]), The identification of taxpayers concerned in Croatia is very efficient: in 2025, the matching rate measuring success in identifying registered taxpayers with DAC data ([51]) is 95% for the main categories of DAC1 ([52]), 100% for DAC2, and 93% for DAC7 (above the EU-average: 84%, 92% and 86% respectively). This systematic approach ensures that data is used accordingly to the objectives of the DAC and could be strengthened by the use of DAC7 data to identify undeclared economic activities through platforms. In this respect, the TIN validation tool envisaged in the DAC recast proposal will support the matching process to approach a 100% automatic matching rate, ultimately allowing Croatia for a more efficient and targeted deployment of resources.

Once the taxpayers have been identified, Croatian tax authorities use the available data for various activities: voluntary compliance programs, tax risk assessment to detect possible undeclared income, notification to generate disclosure and, if relevant, tax assessments or audits limited to specific categories of income or capital. Croatia has a sufficiently robust monitoring system which enabled to document a significant increase in the tax base and tax assessed, based on DAC information.

Croatia has a relatively low activity in VAT administrative cooperation ([53]). In 2024, Croatia sent 228 requests for information, representing a decline from 2023 (-25.5%) ([54]). It received 190 requests in 2024. Based on a standardised measure, taking into account the relative size of the Croatian economy, Croatia is above the EU weighted average on both the number of requests sent and on the number of requests received ([55]).

Croatia records mixed results in automated exchange of VAT information. It reported 1 537 VAT identification numbers allocated to taxable persons not established in the Member State. For information on new means of transport, it forwarded 6 cases. Based on a standardised measure, taking into account the relative size of the Croatian economy, Croatia is well above the EU weighted average on VAT identification numbers allocated to taxable persons not established in HR and well below the volume of information on new means of transport. ([56])

[47] Sources: Yearly Assessment 2026.

[48] Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC: automatic exchange of information on income from employment, pensions, director's fees, immovable properties, life insurance products, royalties.

[49] Council Directive 2014/107/EU of 9 December 2014 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation: automatic exchange of information on financial accounts.

[50] Council Directive (EU) 2021/514 of 22 March 2021 amending Directive 2011/16/EU on administrative cooperation in the field of taxation: automatic exchange of information on income from digital platforms.

[51] The matching rate indicates to what extent a Member State has been able to identify their taxpayers in their national tax databases with information received from other Member States under the DAC. Such matching is necessary to ensure that the data can be used for tax compliance purposes. The matching rates mentioned in this report are based on the metrics approved by the tax authorities in the TADEUS meeting of December 2024.

[52] Income from employment, pensions, director's fees, immovable properties.

[53] Based on Council Regulation (EU) No 904/2010 of 7 October 2010 on administrative cooperation and combating fraud in the field of value added tax (VAT), as subsequently amended, the EU and Member States' national tax authorities cooperate to help ensure the correct application of VAT rules on cross-border transactions.

[54] The data is assessed based on the annual statistics, provided pursuant to Commission Implementing Regulation 79/2012 (Annex IV) and presented to the Standing Committee on Administrative Cooperation (SCAC).

[55] The standardised measure normalises the number of requests per EUR 1 billion of GDP, allowing for comparison relative to the size of the economy. In 2024, Croatia sent 2.65 requests per EUR 1 billion of GDP compared to an EU weighted average of 1.60 requests sent per EUR 1 billion of GDP; and received 2.21 requests per EUR 1 billion of GDP compared to an EU weighted average of 1.59 requests received per EUR 1 billion of GDP.

[56] The standardised measure normalises the number of requests per EUR 1 billion of GDP, allowing for comparison relative to the size of the economy. In 2024, Croatia reported 17.89 VAT identification numbers allocated to taxable

4.3 Compliance risk management

Croatia operates a data-driven compliance risk management (CRM system) under a formal strategy covering all major taxes and taxpayer segments. The system relies on internal and third-party data, such as tax returns, financial statements and EU administrative cooperation mechanisms to identify, assess and prioritise compliance risks. For VAT compliance, real-time data from fiscalisation of cash transactions supports compliance checks, while digital reporting (e.g. via *ePorezna*, *eRačun* ([57])) is not fully real-time but enhances data availability.

AI and machine learning - via a shared national AI infrastructure - calculate risk scores, detect unusual patterns, and identify risky connections. Pilot projects analyse taxpayer data and transaction networks, though these remain targeted and not used system wide. Predictive analytics generate priority lists for audits, with human oversight ensuring accountability ([58]).

Croatia applies proactive digital services and basic behavioural insights to improve compliance. PIT calculations and real-time VAT reporting reduce compliance effort through default effects and simplified processes. However, advanced behavioural insight applications are not documented.

Croatia also partially uses reports exchanged automatically under the DAC concerning risk of tax avoidance, i.e. DAC3 ([59]), DAC4 ([60]) and DAC6 ([61]), mainly for risk-analysis purposes in the field of corporate income taxation. The Croation tax authorities identified successfully 100% of the taxpayers concerned by DAC3 and DAC4 reports, and 99% of the taxpayers concerned by DAC6 (the EU average being 98%, 94% and 90% respectively), but a large part of the process remains manual, and suffers from a lack of resources. In practice, DAC3, DAC4 and DAC6 data is used for risk-assessment (e.g. to identify risks related to transfer pricing, base erosion and profit shifting, harmful tax practices, etc.) and possible follow-up actions such as tax audits. To improve its ability to use DAC6 reports, Croatia has joined a thematic technical support project through the TSI programme.

Croatia's use of CESOP data remains case-by-case, helping cross-check VAT returns with payment information, VIES/OSS data, and delivery company records. This supports efforts to detect cross-border VAT fraud, but the use of CESOP data is not yet part of a regular, structured process ([62]).

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persons not established in the Member State per EUR 1 billion of GDP compared to an EU weighted average of 7.77 VAT identification numbers per EUR 1 billion of GDP; and new means of transport 0.07 requests per EUR 1 billion of GDP compared to an EU weighted average of 0.95 new means of transport per EUR 1 billion of GDP.

[57] Novosti | Fiskalizacija 2.0 / eRačun.

[58] Findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection).

[59] Council Directive (EU) 2015/2376 of 8 December 2015 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation: automatic exchange of information on rulings and advanced pricing arrangements.

[60] Council Directive (EU) 2016/881 of 25 May 2016 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation: automatic exchange of information on country-by-country reports of multinational entities.

[61] Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements.: automatic exchange of information on potentially tax-harmful cross-border arrangements.

[62] Findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection).

4.4 Audits

Croatia combines targeted audits with early intervention to enhance compliance. Croatia conducts desk audits, limited-scope audits, single-issue audits, and comprehensive audits, with pre-audit risk reviews prompting voluntary corrections. Automated monitoring flags anomalies for early intervention, while horizontal monitoring (cooperative compliance) reduces the need for traditional audits for large/transparent taxpayers ([63]). Croatia also requires extensive digital reporting through its Fiscalisation (Fiskalizacija) ([64]) system, which enables the electronic transmission of transaction data to the Tax Administration in near real time and underpins risk analysis and audit activity.

Croatia uses AI and machine learning for more accurate and timely selection of audit cases in pilot projects. These tools focus on VAT fraud detection (e.g. carousel fraud) but remain targeted and not system wide.

Croatia's Large Taxpayers Office (LTO) targets major businesses with a focused audit approach. The LTO oversees major businesses, allocating 2.4% of FTEs (with 46.6% dedicated to audit and investigation) and generates 38.5% of total revenue.

Croatia makes limited use of advanced instruments of administrative cooperation. These are provided for in Directive on administrative cooperation in the field of taxation and Regulation 904/2010 to facilitate cooperation on specific cross-border VAT issues. Such instruments entail multilateral controls (MLCs) such as simultaneous controls, joint audits and presence in administrative offices and administrative enquiries (PAOEs). The synergies between participating Member States derived from these coordinated activities usually lead to an increase in the tax assessed and, therefore, contribute to reduce the tax gap. Between 2023 and 2025 Croatia has initiated 2 MLC and 1 PAOE, and has participated in 3 MLC and 2 PAOE, representing respectively 2%, 1.5%, 1.0% and 1.6% of the total of these operations ([65]).

4.5 Payment and collection

Croatia's payment and collection framework appears to rely strongly on non-cash tax payment methods ([66]), but the available data for 2024 is incomplete for e-payments and on-time payment compliance. This prevents a comparison with the respective on EU averages of 89.8% for CIT, 79% for PIT and 83.7% for VAT for on-time payment compliance no with EU average of 94.9% ([67]).

Croatia uses a risk-based VAT refund selection model, run four times per month, to flag claims for control. Low-risk claims are generally refunded without full audit, while selected claims are audited; where an audit is opened, the refund is typically paid within 30 days after the audit ends ([68]).

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[63] European Commission: Directorate-General for Taxation and Customs Union, Mind the Gap – Challenges and opportunities for tax compliance and tax expenditures in the EU – Croatia, Publications Office of the European Union, 2025, https://data.europa.eu/doi/10.2778/9355121.

[64] Novosti | Fiskalizacija 2.0 / eRačun.

[65] EU AIAC Statistics -2023-2025.

[66] Findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection).

[67] International Survey on Revenue Administration data. https://data.imf.org/en/datasets/ISORA:ISORA_LATEST_DATA_PUB.

[68] Findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection).

4.6 Tax debt recovery

Croatia's tax debt recovery presents robust features supporting effective enforcement, but some aspects are still less developed and could be reinforced. The tax administration uses compliance risk management systems and data analytics to identify and prioritise high-risk taxpayers and sectors. Croatia also applies strict rules on the write-off of tax debts, ensuring that debts are only written off when recovery is no longer possible. In addition, the legal framework allows the authorities to adopt precautionary measures even before a tax assessment has been issued, to secure the future recovery of claims without first needing a court order. ([69]). However, Croatia's law does not allow the tax (recovery) authorities to exchange information with the administrators of insolvency proceedings concerning assets that could be used for the recovery of the unpaid claims in the insolvency proceedings. There is also no disaggregated information on how long it takes to solve tax disputes (at administrative level or before a court) which usually prevent or suspend the recovery of contested tax claims, nor on (administrative or judicial) appeal stages ([70]).

Digital transformation has helped modernise tax debt collection procedures. A major milestone was achieved in December 2025 with the deployment of the new Enforcement 2.0 (Ovrha 2.0) application, developed as part of Croatia's digital transformation and re-engineering of tax enforcement processes.

The percentage of unrecovered tax claims is decreasing and far below the EU average. The closing stock of tax arrears at the end of the year in % of total revenue has shown a continuous decrease in recent years, to 6.3% in 2024, which is far below the EU average of 30.7%. The closing stock of collectable arrears as % of the closing stock arrears has diminished to 0.2% in 2024 (while it was still 10.1% in 2023) ([71]).

Regarding cross-border recovery assistance within the EU, Croatia submits compliant requests to other Member States. Croatia's recovery requests to other Member States generally comply with requirements ([72]) focusing on well-established claims. No recovery requests were suspended in 2025, while 51 requests for recovery were sent to other Member States in the same year ([73]).

[69] Croatia's reply to question 16 of the 2025 survey on tax recovery.
[70] Croatia's replies to questions 12 and 13 of the 2025 survey on tax recovery.
[71] ISORA Data – closing stock and collectable arrears.
[72] Statistics on rejections of requests, reported by Croatia as applicant State, relating to recovery assistance in 2025.
[73] Statistics on the suspension of recovery requests, sent by Croatia as applicant State, following contestation of the claim, for 2025.