



# Related party interest rate in 2019

January 2019

The Croatian Minister of Finance proclaimed a decrease in the interest rate on loans between related parties, so called the arm's length interest rate, from 4.55% to 3.96% per annum, effective as of 1 January 2019 (National Gazette 118/2018 of 27 December 2018).

Accordingly, the maximum tax deductible interest rate on loans received by Croatian taxpayers from foreign related parties **in 2019 is 3.96% per annum**. If a higher interest rate than the prescribed arm's length interest rate is applied, the difference between the applied interest rate and the prescribed interest rate is considered tax non-deductible for Corporate Profit Tax purposes.

On the other hand, the minimum interest rate on loans provided by Croatian taxpayers to foreign related parties **in 2019 is 3.96% per annum**. If a lower interest rate is applied, the difference between the applied interest rate and the prescribed interest rate is considered taxable for Corporate Profit Tax purposes.

The above rules also apply to loans between two Croatian resident taxpayers if one of them is in a favorable tax position.

We note that as of 1 January 2017, instead of using the prescribed interest rate, taxpayers may determine the arm's length interest rate using one of prescribed transfer pricing methods. If so, the same approach should consistently be applied to all related party loans.

Below is an overview of interest rates between related parties over the years:

Annual interest rates between related parties					
1.7.2011 - 30.10.2015	31.10.2015- 31.12.2015	2016	2017	2018	2019
7.00%	3.00%	5.14%	4.97%	4.55%	3.96%

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