



GMS Flash Alert



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United States - Income Tax Treaty Signed with Croatia

On December 7, 2022, the U.S. Treasury Department announced that the United States and Croatia signed a comprehensive income tax treaty.¹ The treaty closely follows the U.S. Model income tax treaty. It will enter into force after the United States and Croatia have notified each other that they have completed their requisite domestic procedures, which in the case of the United States refers to the advice and consent to ratification by the U.S. Senate.

WHY THIS MATTERS

The signing of the treaty is a significant step forward that will facilitate cross-border commerce, including the movement of globally-mobile employees coming to the United States from Croatia or vice versa. This agreement should help mitigate double taxation that international assignees can be exposed to and may provide further benefits, including relief for contributions to pension plans, once the necessary determinations have been made.

Key Points of the Income Tax Treaty

As the treaty is mostly based on the U.S. Model income tax treaty, it includes the standard articles that pertain to individuals and addresses the taxation of dividends, interest, royalties, capital gains, income from employment or self-employment, directors' fees, students and trainees, and pension contributions and distributions.

KPMG NOTE

This income tax treaty comes at an opportune time considering that recent U.S. foreign tax credit (FTC) regulations have redefined what a creditable foreign income tax is and added new requirements. In the absence of the income tax treaty, tax professionals would have to analyze Croatian income taxes to determine whether they are creditable for U.S. tax purposes or not.

However, once the income tax treaty enters into force, Croatian income taxes that are treated as income taxes under the relief from double taxation article should be treated as creditable for U.S. tax purposes, provided they are paid by a citizen or resident of the United States that elects to use the benefits under the treaty.²

FOOTNOTES:

1 U.S. Department of the Treasury, Press Releases "[United States, Croatia Sign Income Tax Treaty](#)" (December 7, 2022).

2 See Treas. Reg. § 1.901-2(a)(1)(iii).

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The above information is not intended to be "written advice concerning one or more Federal tax matters" subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230 as the content of this document is issued for general informational purposes only.

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