



Thinking beyond borders: Management of extended business travelers - Croatia

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Key message

An individual's liability to Croatian personal income tax (PIT) is determined by their tax residence status and the source of their income. PIT is levied at progressive rates on an individual's taxable income for the year.

1 Key message

Extended business travelers are likely to be subject to PIT on employment income relating to their Croatian workdays (unless the individual qualifies for relief under the dependent personal services article of an applicable double tax treaty).

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Income tax

2 Income Tax

2.1 Liability for income tax

An individual can be a tax resident taxpayer or a tax non-resident taxpayer. A resident taxpayer is taxable in Croatia on worldwide income while a non-resident taxpayer is taxable on income from Croatian sources only. A resident taxpayer is an individual who has, in Croatia, their:

- residence (if an individual owns/rents accommodation without interruption for at least 183 days over 2 consecutive calendar years; staying permanently in the accommodation is not necessary).
- habitual abode (if the circumstances suggest that an individual permanently resides in a place or region for a period of at least 183 days over 2 consecutive calendar years).
- If an individual simultaneously has residence in Croatia and abroad (owns/rents accommodation without interruption for at least 183 days over 2 consecutive calendar years in Croatia and a second state), their residence will be in the state where their family resides.

If an individual is single, it is considered that the individual has permanent residence (and accordingly tax residence) in the state from which they mostly travel to work or in which they mostly stay.

A resident taxpayer is also an individual who does not have a residence or habitual abode in Croatia but is employed with a government service and receives a salary based on this appointment.

A non-resident taxpayer is an individual who has neither residence nor habitual abode in Croatia but earns income from Croatian sources, which are subject to Croatian PIT.

Extended business travelers are likely to be considered non-residents of Croatia for tax purposes unless they enter Croatia with the intention to remain for more than 183 days over a period of 2 consecutive years.

Personal income tax is not payable on receipts of an individual earned on the basis of self-employment or conducting work for an employer which is not registered in Croatia, if the individual has digital nomad status (a third-country national who is employed or conducts work via communication technology for a party that is not registered in Croatia).

2.2 Tax trigger points for employment income

There is no threshold/minimum number of days that exempts an employee from the requirements to file and pay PIT in Croatia. If an individual qualifies for relief pursuant to the dependent personal services article of an applicable double tax treaty, no PIT liability arises.

2.3 Types of taxable income

For extended business travelers, the types of income that are generally subject to PIT are employment income (encompassing benefits-in-kind) and other types of income that they might earn referable to work performed in Croatia.

2.4 Tax rates

Taxable income of both a resident taxpayer and a non-resident taxpayer is taxed at progressive tax rates with lower rate ranging from 15%-23% and upper rate ranging from 25%-33%. Each city and municipality has to determine lower and upper tax rate and if they fail to do so, the tax rates, by default, are set at 20% for lower rate and at 30% upper rate. The highest tax rates are in Zagreb, set at 23% for lower tax rate and at 33% for upper tax rate.

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Social Security

3 Social Security

3.1 Liability for social security

A business traveler from a European Union (EU) member state is exempt from paying Croatian social security contributions provided an A1 form has been obtained from the relevant authorities of that member state.

If a business traveler comes from a country/jurisdiction with which Croatia has concluded a totalization agreement, and the relevant exemption forms are obtained to confirm the payment of obligatory insurance abroad, no Croatian obligatory social security contributions are required.

Otherwise, depending on the case, the individual would need to at least pay health insurance contributions, where the level of contributions is assessed directly by the tax authorities. The fixed health insurance contribution liability as assessed by the tax authorities is approximately 112 Euros (EUR) per month irrespective of the individual's income received.

Individuals who have digital nomad status are exempt from the health insurance contribution liability.

3.2 Employees' compliance obligations

Individuals receiving income directly from abroad must report such income to the tax authorities within 30 days of receipt of the income via submission of a JOPPD form. However, for resident taxpayers respective income may also be reported through annual PIT reporting form (INO-DOH form), by the 31 January of the following year under condition that tax prepayment withholdings were made abroad during the tax period. Tax certificates on the PIT paid abroad are to be provided by 30 November of the following year.

Other resident and non-resident taxpayers may submit the annual PIT form (ZPP-DOH form) for claiming additional tax allowances that were not utilized during the tax period. A deadline for filing respective form is the end of February of the following year.

Extensions are granted only in exceptional circumstances.

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Compliance obligations

4 Compliance obligations

4.1 Employers reporting and withholding requirements

There are no compliance obligations for foreign employers for business travelers coming to Croatia unless the business travelers are EU citizens who become subject to Croatian social security contributions.

If a business traveler travels abroad from Croatia and remains subject to PIT in Croatia, their Croatian employer is required to withhold obligatory employee social security contributions and to pay employer social security contributions at rates specifically prescribed for business travelers. The employer is also required to ensure appropriate PIT withholding.

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Other issues

5 Other issues

5.1 Work permit/visa requirements

Provided that a third country/jurisdiction national does not have the status of a posted worker, the third country/jurisdiction national will be required to obtain either a confirmation of work, or a work and stay permit prior to commencement of work in Croatia.

A confirmation of work can be issued for a period of up to 30 or up to 90 days in a calendar year, depending on the type of work that will be performed by the foreign national.

A work and stay permit can be issued for a period of up to 1 year. The process of obtaining the same differs depending on the basis on which the work and stay permit is being sought. Namely, a Croatian employer wishing to hire a foreign national would first need to undertake a labour market test with a view of determining whether the position in question can be filled by unemployed individuals in Croatia. Only if the labour market test shows that there are no suitable candidates on the Croatian labour market, a work and stay permit could be issued for a foreign national. There is no need to conduct a labour market test if a particular employment position is listed in the decision of the Croatian Employment Office as a position for which there is a shortage on the Croatian labour market, as well as in particular cases listed in the Croatian Law on Foreigners (e.g. intra-corporate transfers, employment of directors, etc.).

In addition to a confirmation of work or a work and stay permit, some third country/jurisdiction nationals also require an entry visa, which is merely an approval for entering the Croatian territory. An entry visa does not entitle the third country/jurisdiction national to perform any work in Croatia.

5.2 Stay and work of EEA nationals

EEA nationals can work in Croatia without obtaining a confirmation of work or a work and stay permit. If the intended duration of their stay exceeds 3 months in a consecutive 180 days, they are required to register their temporary stay in Croatia before a relevant police station in Croatia.

5.3 Double taxation treaties

Croatia has currently entered into double taxation treaties with 70 countries/jurisdictions.

5.4 Permanent establishment implications

A permanent establishment could be created as a result of extended business travel in Croatia if the travel lasts for more than 3 months in any 12-month period, unless the traveler is assigned to a Croatian entity and is subject to Croatian PIT.

5.5 Indirect taxes

The standard value-added tax (VAT) rate is 25 percent and applies to most products and services. A reduced VAT rate of 13 percent applies to:

- Tourist accommodation services;
- Full or half board services and the rent of campsites;
- Certain newspapers and magazines, otherwise not subject to 5 percent rate, with the exception of newspapers and magazines that consist mainly or entirely of advertisements or whose main purpose is advertising;
- Supply of electricity,

- Supply of natural gas (excluding period from 1 April 2022 to 31 March 2026 during which a 5% rate applies),
- Supply of heating (supplies performed by 31 March 2025 are subject to a 5% VAT rate),
- Supply of firewood, pellets, briquettes and wood chips (supplies performed by 31 March 2025 are subject to a 5% VAT rate);
- Public municipal waste collection service
- Supply of water as part of the public water supply and public sewerage services
- Urns and coffins;
- Child diapers, and child car seats;
- Menstrual supplies;
- Services and related copyrights of authors, composers and other artists; and
- Preparation and serving of meals.

A reduced VAT rate of 5 percent - applies to:

- All kinds of bread and milk;
- Scientific magazines;
- Cinema tickets,
- tickets for concerts and
- sporting events;
- Certain medicines;
- Certain medical implants and orthopedic devices;
- Books of professional, scientific, artistic, cultural and educational contents;
- Certain daily newspapers;
- Child food;
- Animal food except pet food;
- Seedlings, seeds, fertilizers, pesticides and other agrochemical products;
- Fresh poultry eggs;
- Fresh and dried fruit and vegetables and nuts;
- Live and fresh fish, crabs, mollusks and other water invertebrates;
- Live animals, raw or chilled meat, sausages and other butcher's products; and
- Edible oils and fats, butter and margarine.

A reduced VAT rate of 0 percent - applies to:

- On the supply and installation of solar panels on private residential buildings, dwellings, as well as public and other buildings used for activities of public interest, and on the supply and installation of solar panels in the vicinity of such buildings, dwellings, and facilities.

A VAT exemption (with no input VAT recovery) applies to health and welfare services, education services, supplies by charitable organizations, supplies by museums, libraries, theatres, orchestras and other

cultural services, financial and insurance services, betting and gambling, rental of residential property, postal services supplied by the Croatian National Post, public radio and television broadcasting.

5.6 Transfer pricing

Croatia has a transfer pricing regime that applies to any transaction between a Croatian company and a foreign related company, inclusive of any charges made to the Croatian company in respect of business travelers.

The transfer pricing provisions also apply to transactions undertaken between two domestic related entities if one of them has a preferential tax position (e.g. entitlement to a reduced corporate profit tax rate, exemption from corporate profit tax, or tax losses available for utilization).

5.7 Local data privacy requirements

The Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC (General Data Protection Regulation) is applicable in Croatia. Some additional privacy requirements are prescribed in the local Law on Enforcement of the GDPR.

5.8 Exchange control

There are no limitations for foreign and domestic currency brought into Croatia (for either residents or non-residents). However, amounts in excess of EUR10,000 must be reported to the Croatian Customs Authorities. The Croatian Customs Authorities must report amounts in excess of EUR10,000 to the Office for the Prevention of Money Laundering.

5.9 Non-deductible costs for assignees

Non-residents taxpayers are able to deduct from gross income only the basic personal allowance (currently EUR 600.00 per month) and any obligatory foreign country/jurisdiction insurance contributions paid by the individual where an EU Regulation or a totalization agreement on social insurance with the respective foreign country/jurisdiction applies, or any Croatian employee social security contributions, if the individual is subject to Croatian social insurance. Any other costs or expenses are non-deductible.

Resident taxpayers are able to deduct from gross income the basic personal allowance (currently EUR 600.00 per month), as well as additional personal allowances for dependent family members, any Croatian employee social security contributions, or any obligatory foreign country/jurisdiction insurance contributions paid by the individual, where an EU Regulation or a totalization agreement or on social insurance with the respective foreign country/jurisdiction applies.

Additional deductions are available for both non-resident taxpayers and resident taxpayers for the following:

- donations up to 2 percent of the receipts for which, in the current year, an annual PIT tax return has been submitted and annual PIT has been determined or a special procedure took place establishing annual PIT and city surtax liabilities;
- payments made by Croatian employers to Croatian voluntary pension funds (pillar III pension insurance) on behalf of Croatian employees up to a maximum of EUR 67.00 per month per employee.

If both spouses are tax residents and pay PIT, it is possible to share additional allowances for children and other dependents of the immediate family.

Croatian domestic tax law indicates that foreign-sourced income, which is subject to PIT abroad, is also subject to PIT in Croatia, but a tax credit for PIT paid abroad may be applied to reduce PIT otherwise payable in Croatia; the PIT credited may not, however, exceed of Croatian PIT payable on that foreign

income.

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