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PART 5/29

**COMMISSION STAFF WORKING DOCUMENT**

**Mind the Gap Report**  
**Challenges and opportunities for tax compliance and tax expenditure in the EU**  
**Croatia**

# Country fiche: Croatia

## Summary box: Areas of Strength and Areas for Improvement

### Areas of Strength

- **Croatia reports on tax expenditures across VAT, personal income taxation (PIT) - including social security contributions (SSC) - and corporate income taxation (CIT).** Recent reforms have rolled back or phased out tax expenditures deemed no longer effective, notably SSC exemptions for young employees.
- **Croatia has made progress in digitalisation of tax administration.** It has near-universal e-filing for VAT and CIT, a robust digital tax portal ('ePorezna'), and is rolling out the project 'Fiscalisation 2.0', which will introduce mandatory e-invoicing and real-time reporting by 2026-27.
- **The VAT compliance gap is below the EU average, at nearly 8% in 2023.** It dropped compared to the previous year in the context of strong VAT revenue growth, fiscal digitalisation, and targeted anti-fraud measures.

### Areas for Improvement

- **Croatia does not estimate CIT or PIT tax gaps.** If the country did, it could shed more light on areas to focus on to close compliance gaps, especially in light of the relatively large shadow economy. Nevertheless, top-down estimates provided by the JRC point to a relatively low CIT tax gap. It could therefore be particularly beneficial to estimate PIT tax gaps, or to complement existing CIT gap estimates with audit-based estimates.
- **The VAT rate gap has been increasing and is above the EU average.** Croatia's total VAT policy gap, at 36.6% of notional ideal revenue (NIR) in 2023, is well below the EU average of 51%. However, within the policy gap, the VAT rate gap has been increasing and stands above the EU average. The large rate gap also needs to be viewed in the context of Croatia's particularly high standard VAT rate.
- **There may be scope to further simplify the tax system.** In corporate taxation, conditions for tax expenditures can be complex and may discourage businesses from applying them, and also add burden for the tax administration, for example under the Investment Promotion Act. Relatedly, as part of its Recovery and Resilience Plan (RRP), Croatia recently reformed tax expenditures related to R&D, including by increasing deductible amounts and simplifying procedures.
- **Despite progress in the use of digital tools, VAT administration could be further improved.** For example, Croatia does not maintain a dedicated e-commerce taxpayer register, leaving oversight of online sellers less systematic at a time when platform and cross-border transactions are expanding.

# 1. Snapshot of Tax System: Tax Revenues and their Sources

**In 2023, tax revenues in Croatia amounted to 37.2% of GDP, below the EU's 39% average.**

Croatia's tax structure stands out for its strong reliance on consumption taxes (49.6% of total tax revenues, nearly double the EU average of 26.9%) <sup>(1)</sup>. Capital taxes amount to 15.6% of the total (21.9% in the EU), while taxes on labour contribute much less (34.8% vs. 51.2% in the EU), mostly from social security contributions. Following the personal income tax reform of January 2025, the maximum rates municipalities may set have decreased to 20–23% for lower and 30–33% for higher brackets. In addition, the threshold for higher rates was raised, and allowances for dependents increased. The reforms further lower the already moderate tax burden on labour. Recurrent taxes on immovable property accounted for only 0.5% of GDP in 2023, compared with an EU average of 0.9%, but Croatia reformed its property tax system, and changes entered into force in 2025 to improve fairness while strengthening revenues.

**The redistributive effect of Croatia's tax-benefit system is relatively limited.** The at-risk-of-poverty (AROP) rate in Croatia stood at 21.7%, slightly above the EU average of 21.0% <sup>(2)</sup>, while its Gini coefficient for equivalised disposable income at 29.8% was close to the EU average of 29.3% in 2024 <sup>(3)</sup>, indicating above-average levels of income equality. Croatia's tax-benefit system reduced income inequality by less than the EU average, 6.3 percentage points compared to 7.7 percentage points in 2023 <sup>(4)</sup>. The progressivity of labour taxes in Croatia is slightly below the EU average, as the difference in the tax wedge <sup>(5)</sup> between high-income (167% of average wage) and low-income earners (67% of average wage) was 6.9 percentage points, compared to 7.8 percentage points in the EU. In addition, the tax wedge for second earners was higher than the tax wedge for single people at the same wage level, indicating inferior work incentives for second earners. Due to the relatively low share of taxes on labour in Croatia's tax mix, the progressivity of personal income taxation has limited redistributive effects in the overall tax-benefit system.

## 2. Monitoring of Compliance Gaps

### 2.1. Overview

**Croatia has been contributing to EU initiatives on tax gap estimation.** The Croatian Tax Administration, in cooperation with the Croatian Bureau of Statistics (CBS), has been actively

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<sup>1</sup> Data on tax revenues are based on European Commission: [Data on Taxation Trends](#), edition 2025 (reference year 2023). The 2026 edition (reference year 2024) will be published in the first quarter of 2026. Preliminary data point to a downward revision of tax revenue data for 2023 (to 36.7% of GDP), followed by an increase of total tax revenues to 38.4% of GDP in 2024: [https://doi.org/10.2908/GOV\\_10A\\_TAXAG](https://doi.org/10.2908/GOV_10A_TAXAG).

<sup>2</sup> European Commission, Eurostat [[ilc\\_peps01n](#)]

<sup>3</sup> European Commission, Eurostat [[ilc\\_di12](#)]

<sup>4</sup> European Commission, DG EMPL calculations based on EU-SILC survey data.

<sup>5</sup> The tax wedge is defined as the sum of personal income taxes and employee and employer social-security contributions net of family allowances, expressed as a percentage of total labour costs (the sum of the gross wage and social-security contributions paid by the employer). Data are based on European Commission, DG ECFIN: [Tax and Benefits Database](#).

participating in the FISCALIS/TADEUS project on tax gap estimation <sup>(6)</sup>. In particular, Croatia takes part in the MTIC and e-commerce VAT sub-groups.

## 2.2. Monitoring VAT Compliance Gap

**In 2023, Croatia's VAT compliance gap <sup>(7)</sup> was estimated at around EUR 900 million, which is at nearly 8% of the VAT Total Tax Liability (VTTL) <sup>(8)</sup> below the EU average of 9.5%.** This marked an improvement from a gap of around EUR 1 billion (about 11% of the VTTL) in 2022, though it is still much higher than the EUR 300 million (4%) VAT compliance gap estimated in 2019 <sup>(9)</sup>.

**The relatively sharp decline in services growth in 2023 likely contributed to the observed higher VAT compliance.** Services are typically harder to tax effectively than traditional goods. The decrease in bankruptcy declarations of around 22% has also likely affected VAT collection positively, contributing to a lower VAT compliance gap. Furthermore, continued fiscal digitalisation reforms have likely contributed to the recent improvement.

**Croatia's estimated VAT losses due to Missing Trader Intra-Community (MTIC) fraud <sup>(10)</sup> were around EUR 90 million in 2023.** They have fluctuated over time but trended downward overall. Since 2013, the first year for which estimates could be calculated, MTIC-related losses decreased by around EUR 60 million <sup>(11)</sup>. A sharp post-2022 fall reflects strengthened fiscal digitalisation, mandatory e-reporting and e-invoicing, and Croatia's integration into EU anti-fraud mechanisms, including Eurofisc and the TNA network.

## 2.3. Corporate and Personal Income Tax Compliance Gaps, and Measures of the Shadow Economy

**The European Commission is not aware of any corporate income tax (CIT) and personal income tax (PIT) compliance gap estimation activities in Croatia at the time of writing of this document.** Estimating CIT and PIT compliance gaps could help policy makers understand the nature and magnitude of the problems related to CIT and PIT tax collection. In addition, measuring and

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<sup>6</sup> European Commission (2025), Directorate-General for Taxation and Customs Union, *Towards a common approach to tax gap estimation in the EU – Fiscalis Project Group 008 – Final report*, Publications Office of the European Union, <https://data.europa.eu/doi/10.2778/3068071>

<sup>7</sup> The VAT compliance gap is an estimate of revenues lost due to VAT fraud, evasion and avoidance, bankruptcies and financial insolvencies, or miscalculations.

<sup>8</sup> 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.

<sup>9</sup> 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>.

<sup>10</sup> Missing Trader Intra-Community (MTIC) fraud is a form of VAT fraud that exploits VAT-free cross-border trade within the EU. Fraudsters purchase goods VAT-free from another Member State, sell them domestically, charge VAT to their customers, and disappear before paying this VAT to the tax authorities.

<sup>11</sup> European Commission, CASE, Poniatowski, G., Śmietanka, A., and Skowronek, A., *VAT compliance gap due to Missing Trader IntraCommunity (MTIC) Fraud – Final Report Phase II*, Publications Office of the European Union, Luxembourg, 2024, <https://data.europa.eu/doi/10.2778/6433841>.

monitoring tax compliance gaps can support the tax administration in assessing the effectiveness of their tax policy actions.

**European Commission estimates suggest a moderate 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, the CIT compliance gap of Croatia was at around 7% of collected CIT revenues in 2019 (using the gross values added (GVA)-based methodology) <sup>(12)</sup>, among the moderate figures among available Member State estimates and below the average. The (unweighted) average for the CIT compliance gap is 10.9% of collected CIT revenues based on available estimates for 23 Member States <sup>(13)</sup>.

**The size of the shadow economy in Croatia is well above the EU average, and evidence points a large role of envelope wages.** In 2022, the shadow economy in Croatia represented 29.7% of its GDP, according to estimates by Schneider, F. and Asllani, A. for the European Parliament <sup>(14)</sup>. This ratio is the second highest in the EU, 12.1 percentage points above the EU-27 unweighted average of 17.6%, a level similar to the one in 2012 (29.0% of GDP). Moreover, the IMF also points to frequent tax changes eroding tax predictability and compliance <sup>(15)</sup>. Based on survey data, informal work appears to be spread across many service sectors, and in particular tourism, construction, and agriculture <sup>(16)</sup>. In a representative survey carried out among 521 companies in Croatia, 59.3% of respondents estimated that the share of envelope wages in their sector was between 20% and 50% <sup>(17)</sup>. The estimated size of the shadow economy and evidence on envelope wages point to potential for further research. It could be particularly beneficial to estimate PIT tax gaps, or to complement existing CIT gap estimates with audit-based estimates.

**Furthermore, the perceived level of tax morale is low in Croatia and is likely associated with under-reporting of salaries.** Only 45% of citizens in Croatia feel that people pay taxes in proportion

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<sup>12</sup> CIT gaps are reported based on GDP, gross value added (GVA) and gross operation surplus (GOS). In the present exercise there is generally a focus on GVA based estimates since these are considered most reliable. While this is not the case for other countries, the GVA based estimate is the highest one for Croatia. Estimates range from 2.7%-7.6%.

<sup>13</sup> European Commission: Directorate-General for Taxation and Customs Union (2025), *The Corporate Income Tax Gap, A European approach to measuring losses in corporate tax revenues*, Publications Office of the European Union, <https://data.europa.eu/doi/10.2778/0541549>. The JRC has recently developed a novel approach to estimate the CIT gap based on National Accounts and existing data on the undeclared economy, providing approximations of the CIT gap for a majority of EU Member States. JRC's estimations are based on the exhaustiveness adjustments made to Gross Operating Surplus (GOS), Gross Value Added (GVA) and Gross Domestic Product (GDP), that national statistical offices perform to account for non-observed economy. The JRC approach does not capture CIT gaps associated with tax avoidance and (international) profit shifting, which would require other estimation methods.

<sup>14</sup> European Parliament (2022), *Taxation of the informal economy in the EU*. [https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734007/IPOL\\_STU\(2022\)734007\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734007/IPOL_STU(2022)734007_EN.pdf).

<sup>15</sup> IMF, (2024), Article IV report, <https://www.imf.org/en/Publications/CR/Issues/2024/07/26/Republic-of-Croatia-2024-Article-IV-Consultation-Press-Release-and-Staff-Report-552561>.

<sup>16</sup> OECD (2023), OECD Economic Surveys: Croatia 2023, OECD Publishing, Paris, <https://doi.org/10.1787/4f945053-en>

<sup>17</sup> Bejakovic, P. and C. Williams 2017: Undeclared Economic Activities of Croatian Companies: Findings from a Representative Survey of 521 Companies, [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3045662](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3045662)

to their income and wealth, at least to some extent, which is the lowest figure in the EU <sup>(18)</sup>. 57% of individuals also feel that taxes are too high and would decrease them even if it means fewer or lower quality public services, which is the second highest figure for this indicator in the EU <sup>(19)</sup>. An analysis based on 6 019 interviews carried out in Bulgaria, Croatia and Macedonia in 2015, showed a strong association between salary under-reporting and the level of tax morale <sup>(20)</sup>. Moreover, in Croatia, the trust of citizens in the labour inspectorate (in charge of supervising and enforcing compliance with labour law) was the third lowest in the EU, with only 32% of respondents tending to trust the authority, compared to 49% at the EU average <sup>(21)</sup>.

## 2.4. Other Compliance Gaps

**Croatia does not yet publish estimates for excise tax gaps.** However, recent policy changes suggest a focus on revenue generation in this area. Notably, on July 1, 2025, the government raised excise duties on all tobacco products by around 5 %. The specific excise duty on cigarettes increased from EUR 53.10 to EUR 56.10 per 1 000 cigarettes, with minimum excise rising to EUR 124.20. Fine-cut tobacco and other smoking products increased to €120.50 per kg, while heated tobacco products' rate jumped from EUR 185.82 to EUR 198.50 per kg. For the first time, e-cigarette liquids are taxed at EUR 0.20 per millilitre. These measures are expected to generate EUR 74.7 million in additional revenue for 2025 <sup>(22)</sup>.

## 3. Monitoring of Policy Gaps

### 3.1. Tax Expenditures

**Croatia has recently made significant improvements in the monitoring of tax expenditures.** Croatia monitors and publishes the type and size of tax expenditures in VAT, CIT, and PIT and social security contributions (SSC). According to the latest reporting, tax expenditures made up HRK 21.4 billion (EUR 2.84 billion) – around 4.2% of GDP - in 2022 <sup>(23)</sup>. VAT made up 63.6% of these tax expenditures, reflecting also the particularly large role of VAT revenues (and consequently the foregone revenue of reduced rates) for Croatia (see also section 3.2). CIT tax expenditures accounted

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<sup>18</sup> European Commission: Directorate-General for Taxation and Customs Union and Directorate-General for Communication, *Citizens' attitudes towards taxation – Eurobarometer report*, European Commission, 2025, <https://data.europa.eu/doi/10.2778/6066713>.

<sup>19</sup> Ibid.

<sup>20</sup> William, C. and J. Franic 2017: Tackling the illegitimate under-reporting of salaries in Southeast Europe: some lessons from a 2015 survey in Bulgaria, Croatia and FYR Macedonia, [https://ejes.uaic.ro/articles/EJES2017\\_0801\\_WIL.pdf](https://ejes.uaic.ro/articles/EJES2017_0801_WIL.pdf)

<sup>21</sup> Special Eurobarometer 498 – September 2019: Undeclared Work in the European Union.

<sup>22</sup> Croatian Ministry of Finance, 2025, Donesena je Uredba o visini trošarine na duhanske prerađevine i duhanske proizvode, press release, <https://carina.gov.hr/vijesti/donesena-je-uredba-o-visini-trosarine-na-duhanske-preradjevine-i-duhanske-proizvode-16989/16989>.

<sup>23</sup> Croatian Ministry of Finance, Catalogue of tax expenditures for 2022, <https://porezna-uprava.gov.hr/hr/porezni-rashodi/4008>.

for 12.1%, SSC for 17.3% and PIT for 7%. According to the IMF, there is scope to broaden the tax base <sup>(24)</sup>.

**In corporate income taxation, the main tax expenditures stem from reduced rates for small companies and from investment incentives.** HRK 1.3 billion (EUR 170 million) were attributed to the reduced corporate income tax rate of 10% applicable to companies with less than HRK 7.5 million (EUR 1 million) in annual revenues (instead of the 18% statutory rate). Some companies also benefit from tax reductions under the Investment Promotion Act, although conditions can be complex and may discourage some from applying for or reporting them. A range of tax incentives are available under the Act, with corporate income tax rate reductions up to 100%, depending on the type of investment, the number of jobs the investment creates, and the size of the company. Other tax expenditures for training, research & development, and disadvantaged regions are used to a very limited degree. Improved uptake of the R&D initiatives could be achieved by simplifying the system and increasing the amount of the benefits offered. The regime has been reformed under Croatia's RRP to make it more attractive, including by increasing deductible amounts and simplifying procedures.

**In personal income taxation and social security contributions, the main tax expenditures stem from exemptions and reductions for young employees.** These tax expenditures were introduced to retain young talent in Croatia and to reduce youth unemployment rates. However, in the context of changed economic circumstances and budgetary pressures, they were reformed and are being phased out.

**A recent microsimulation study of tax expenditures in the EU reveals that in Croatia foregone revenues related to PIT are worth 0.7% of GDP, or 21% of PIT revenue <sup>(25)</sup>.** The latter figure is higher than the EU average and puts Croatia among the countries with the largest share of potential PIT revenue that is foregone due to tax expenditures. However, as a share of the overall economy, the costs of 0.7% of GDP are below the EU average of 1.2%, reflecting Croatia's relatively low reliance on labour taxes (see Section 1). The main PIT tax expenditures included in the simulation for Croatia are related to family, which notably include disability allowances and pension income tax allowances. There are no employment-related PIT tax expenditures in the simulation for Croatia. Despite the high share of PIT revenue lost, the impact of these tax expenditures on average disposable household income is very small, at less than 1%.

**Tax expenditures for PIT have a limited impact on income inequality.** The effect of PIT tax expenditures on income inequality, as measured by the Gini coefficient, is less than 2%. In other words, Croatia's tax expenditures do not significantly reduce the gap between higher and lower income households. In fact, tax expenditures in Croatia have a negative impact on disposable income for the lowest two income deciles. This effect is due to a specific policy interaction, a temporary one-off payment for pensioners was replaced by a tax allowance, making some low-income pensioners ineligible for the benefit and thus reducing their disposable income.

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<sup>24</sup> [IMF 2024: Article IV report](#): Croatia.

<sup>25</sup> Turrini et al., (2024), [Tax Expenditures in the EU: Recent Trends and New Policy Challenges](#).



## 3.2. VAT Policy Gap

**Croatia's VAT policy gap<sup>(26)</sup> was estimated at around 37% of notional ideal revenue<sup>(27)</sup> in 2023, or about EUR 7 billion.** It was lower than the EU average of 51%, and the fifth lowest among EU Member States. The VAT policy gap remained relatively stable over time, increasing marginally since 2022, and decreasing marginally compared to 2019<sup>(28)</sup>.

**The VAT exemption gap<sup>(29)</sup> in Croatia was estimated at around 21% of the notional ideal revenue in 2023 (about EUR 4 billion), lower than the EU estimate of 38%.** The VAT exemption gap has decreased over time, showing a decrease compared to 2022 (around -1 percentage point) and compared to 2019 (around -3 percentage points).

**In 2023, the VAT rate gap<sup>(30)</sup> was estimated at around 15% of notional ideal revenue (EUR 3 billion), higher than the overall EU estimate of 12%.** It has observed an overall increasing trend, rising by around 2 percentage points since 2022, and 3 percentage points compared to 2019. This development can be explained by the introduction of several reduced VAT rates as anti-inflationary measures since 2022. The reduction of VAT rates from 13% to 5% on certain types of foods is reflected in the higher portion of the VAT rate gap attributable to agricultural products, foodstuffs, and beverages. Similarly, the reduction of the VAT rate on the supply of natural gas and district heating from the full rate to 5%, together with the zero-rate introduced on the installation of solar panels on private residences and public buildings, are reflected in the higher portion of the VAT rate gap attributable to utilities.

**The national policy-driven VAT exemption gap<sup>(31)</sup> of EUR 1 billion, was estimated in 2023 at around 6% of the notional ideal revenue,** while the overall EU estimate was 11%. It has remained stable compared to 2022 and has increased since 2019 by around 1 percentage point.

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<sup>26</sup> 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.

<sup>27</sup> 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.

<sup>28</sup> 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>.

<sup>29</sup> The VAT exemption gap refers to the portion of the VAT policy gap resulting from revenues lost due to the application of VAT exemptions on selected products.

<sup>30</sup> 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.

<sup>31</sup> 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.

## 4. Effectiveness of Tax Collection and Recovery Systems

### 4.1. VAT Collection

**Croatia's VAT administration has made progress in digitalisation and compliance in recent years.**

Croatia has implemented near-universal electronic filing for VAT - returns, and it is currently rolling out mandatory e-invoicing through its *Fiscalisation 2.0* initiative. From 1 January 2026, e-invoicing will become mandatory for VAT-registered businesses, and by 1 January 2027 for non-VAT taxpayers and public entities. Registration and deregistration procedures have been simplified, notably through the increase of the VAT registration threshold, which has reduced administrative burdens for small taxpayers. Tax filing and assessment processes are efficient and mostly electronic, which has supported high on-time payment rates and a VAT compliance gap of nearly 8% in 2023—below the EU average <sup>(32)</sup>. The VAT revenues grew strongly from EUR 6.32 billion in 2020 to EUR 11.45 billion in 2024 <sup>(33)</sup>.

**In the area of compliance risk management, Croatia has adopted digital tools and data analytics to identify risks and detect non-compliant taxpayers, particularly in high-risk sectors such as accommodation, construction, and e-commerce.** Risk analytics now include data from the JEER ("Jedinstveni Evidencijski Elektronički Registar") and short-term accommodation platforms; cooperation with the Ministries of Interior and Labour has been strengthened. The Court Register Act (Art. 43, in force since 1 January 2024) and the Companies Act (Art. 62a, in force since 4 December 2024) prevent registration of new companies when founders/representatives have overdue tax or social debts. These enhancements strengthen Croatia's ability to prevent and detect VAT fraud. Audit and enforcement processes are supported by specialised audit units and digital upgrades. Sector-specific audit manuals (e.g., tourism, construction, telecoms, banking, insurance) are already in place; the remaining gap is systematic audit quality monitoring and regular updates.

**Croatia's payment and collection systems are largely digitalised, with electronic payment being mandatory for most taxpayers.** Croatia's VAT registration and identification processes are largely digital, and include online registration, identity verification, and legal checks. The country also cross-checks VAT registration data with third-party sources, which aligns with EU good practices. For low-risk taxpayers, VAT refunds are now paid automatically within 10–15 days up to approximately EUR 13 000. Automated enforcement via ePorezna issues warnings and enforcement orders (including seizure of financial assets) and enables instalment plans for outstanding debts.

**Recommended practices for Croatia include further digitalising VAT administration, especially in the areas of risk management and audit <sup>(34)</sup>.** Strengthening the use of data analytics and automated controls, improving audit quality assurance, and enhancing the efficiency and transparency of debt

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<sup>32</sup> Commission's Ninth Report on VAT registration, collection and control procedures following Article 12 of Council Regulation (EEC, EURATOM) No 1553/89, [EUR-Lex - 52022DC0137 - EN - EUR-Lex](#). / Answers to the survey sent to the Member States in June 2025 in view of the Tenth Report on the same subject matter.

<sup>33</sup> European Commission: Directorate-General for Taxation and Customs Union, Syntesia, and Center for Social and Economic Research (CASE), VAT gap in Europe – 2025 report, Publications Office of the European Union, 2025, <https://data.europa.eu/doi/10.2778/7868422>

<sup>34</sup> Commission's Ninth Report on VAT registration, collection and control procedures following Article 12 of Council Regulation (EEC, EURATOM) No 1553/89, [EUR-Lex - 52022DC0137 - EN - EUR-Lex](#).

collection and write-off procedures are also advised. Under the RRP, Fiscalisation 2.0 includes domestic e-invoicing deadlines in 2026/2027, expected to reduce administrative burdens and tighten real-time controls. Croatia does not keep a record of refused VAT registration applicants, which limits the administration's ability to track potentially high-risk actors who may attempt to re-register under different identities. Croatia also does not maintain a dedicated e-commerce taxpayer register, leaving oversight of online sellers less systematic at a time when platform and cross-border transactions are expanding <sup>(35)</sup>.

**Croatia offers electronic VAT filing for nearly all taxpayers and monitors compliance automatically.** The country uses reminders, penalties, and estimated assessments to ensure timely filing. An automated non-filer system now sends two written requests, tracks behaviour, and estimates potential budget damage—contributing to higher filing and VAT collection. Despite these efforts, Croatia does not systematically evaluate the effectiveness of its penalty regime, which is necessary to ensure it remains proportional and effective <sup>(36)</sup>.

**The country's audit and enforcement functions are well developed.** The Tax Administration uses specialised audit software and conducts a variety of audits, including checks on registration, refunds, and fraud. These activities are aligned with Croatia's compliance improvement plan. Croatia actively uses EU-level cooperation tools to increase audit effectiveness. Given manuals are already in place, the improvement needs now shifts to audit-quality assurance and systematic updates.

## 4.2. Tax Recovery

**Tax arrears in Croatia stood at 8.7% in 2023, down from 11.8% of total tax revenue in 2021 and below the EU average.** However, only about 10% of these arrears were considered collectible in 2023, up from about 8% in 2021, which is among the lowest shares in the EU <sup>(37)</sup>. At the same time, Croatia has strengthened enforcement through automation, introducing electronic warnings, enforcement orders (including asset seizures), and instalment plans for outstanding debts based on the electronic tax portal, 'ePorezna'. On-time payment rates are comparatively strong, supported by the widespread use of digital tools: nearly 100% of VAT and 97% of corporate income tax returns are filed electronically, and the electronic tax portal allows taxpayers to view their tax accounts, receive reminders, and resolve outstanding liabilities online. The Croatian Tax Administration offers waivers on interest and penalties to encourage prompt payment.

**The Tax Administration uses compliance risk management systems and data analytics to identify and prioritise high-risk taxpayers and sectors, focusing resources on those most likely to default or evade taxes.** Indicators include irregular filing, repeated losses, and sectoral vulnerabilities. Automated systems and tools such as Fiscalisation and the upcoming Fiscalisation 2.0 (mandatory e-invoicing and real-time reporting) support early detection of payment risks.

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<sup>35</sup> Ibidem

<sup>36</sup> Ibidem

<sup>37</sup> Source: ADB, CIAT, IOTA, IMF, OECD, International Survey on Revenue Administration, Indicators: "Closing stock of arrears at year end as percentage of total revenue collected." and "Closing stock of collectable arrears as percentage of closing stock of arrears", <http://isoradata.org>

**Despite these strengths, Croatia does not systematically report or monitor the cost-effectiveness of recovery actions, nor does it use formal cost-benefit analysis or performance indicators for debt collection.** There is no detailed public reporting on the efficiency of specific recovery measures, and Croatia does not collect data on the national recovery rate relating to VAT, personal income tax and corporate tax. This lack of measurement makes it difficult to optimise resource allocation and assess the proportionality of enforcement efforts.

**Debts are classified as non-collectible based on clear criteria:** insolvency, absence of recoverable assets, prolonged non-payment, closure of bankruptcy or enforcement proceedings, or expiry of the statute of limitations. When all legal avenues are exhausted, debts may be written off. The Croatian Tax Administration may also write off debts in specific cases, such as bankruptcy, liquidation, or for certain taxes and contributions under conditions prescribed by law. In 2018, a large-scale write-off – applying to the tax administration, among other creditors – targeted over 150 000 citizens with blocked accounts, demonstrating a willingness to resolve long-standing insolvency and reduce the social burden of uncollectible debts <sup>(38)</sup>.

**Best practices that have led to improvements include the digitalisation of tax administration, real-time reporting, and targeted amnesties for uncollectible debts, all of which have contributed to increased transparency, reduced administrative burden, and improved voluntary compliance.** However, some debts remain unrecovered due to passive follow-up, legal limitations, and incomplete automation of enforcement procedures. There is room to expand automation in debt classification and follow-up actions, as well as to improve the integration of risk assessment into recovery processes. Moreover, the tax authorities could be allowed to exchange information at the request of the administrator of the insolvency proceedings concerning assets that could be used for the recovery of the unpaid claims in the insolvency proceeding.

#### **4.3. Use of Directive on Administrative Cooperation (DAC) <sup>(39)</sup> Instruments and Data <sup>(40)</sup>**

**Croatia makes a thorough use of DAC1 <sup>(41)</sup> and DAC2 <sup>(42)</sup> data for assessing taxation on individuals.** DAC1 (categories of income) <sup>(43)</sup> and DAC2 (financial accounts) data is currently used for voluntary compliance programs, notification to generate disclosure, domestic risk assessment analysis

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<sup>38</sup> Government of Croatia, press release, Debts of over 150,000 citizens written off, PM says, 2018, <https://vlada.gov.hr/news/debts-of-over-150-000-citizens-written-off-pm-says/24188>.

<sup>39</sup> Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC, as subsequently amended

<sup>40</sup> Source: Yearly Assessment 2025; EU AIAC Statistics 2024 – Subject to confidentiality clause on DAC art. 23a.

<sup>41</sup> Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC

<sup>42</sup> 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

<sup>43</sup> Income from employment, director's fees, pensions, immovable properties.

(<sup>44</sup>), tax assessments and audits that may focus on specific categories of incomes or capital. Data is mainly used in the field of personal income tax, leading to increase in tax revenues.

**DAC data matching rates concerning individuals (<sup>45</sup>) are very high as Croatia does not leave unmatched data and may use manual matching to complement the identification of taxpayers concerned.** For the year 2024, the average matching rate measuring success in identifying taxpayers with DAC data is almost 100% for DAC1 (<sup>46</sup>), and 93% for DAC2, the EU-average being at 84% and 87% respectively.

**Croatia uses DAC3 (<sup>47</sup>) (rulings) and DAC4 (<sup>48</sup>) (country-by-country report) data for risk-analysis purposes in the field of corporate income taxation** The percentage of reports identified successfully in 2024 is very high: 100% for DAC3, 95% for DAC4, leading to efficient use of information. In accordance with the goals of DAC3, notifications of an existing advanced pricing agreement or a ruling are included in the domestic risk assessment procedures, as part of the set of indicators that may lead to further investigations on the taxpayers concerned. Similarly, DAC4 reports are systematically processed to feed the national database for risk analysis. The reports including DAC3 and DAC4 data are used for assessing risks on transfer pricing, base erosion and profit shifting matters, economic and statistical analysis, and audits limited to specific categories of transactions (e.g. transfer pricing).

**DAC6 (<sup>49</sup>) data is matched, and taxpayers are successfully identified.** Yet, the integration of DAC6 data in the risk analysis system has not been implemented. This is part of a project supported by the European Commission (TSI) that should lead to the implementation of DAC6 data analysis in the future.

**Croatia makes limited use of the advanced instruments provided for in the DAC to facilitate cooperation on specific cross-border issues, such as simultaneous audits.** The synergies between participating Member States derived from these coordinated activities usually lead to an increase of the tax assessed and therefore contribute to reducing the tax gap. Looking at the past three years, Croatia initiated 2 simultaneous audits.

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<sup>44</sup> Risk assessment: tax risk assessment is a key element of modern tax administration. It allows tax authorities to identify indicators that suggest specific taxpayers or arrangements may pose an increased risk to their jurisdiction and require further actions in terms of compliance. In general, EU tax authorities use automated methods based on domestic data and information received from other jurisdictions. Yet, a manual element may remain, as (i) tax authorities vary in terms of whether tax risk assessment is conducted centrally by a specialist risk assessment team incorporating input from the compliance function, or locally by the compliance team (or tax inspector); (ii) some data types remain challenging to be automatically processed, e.g. literal summaries.

<sup>45</sup> 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.

<sup>46</sup> Average rate for income from employment, director's fees, pensions, immovable properties.

<sup>47</sup> 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

<sup>48</sup> 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

<sup>49</sup> 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

**In conclusion, Croatia uses the data obtained from the automatic exchange of information in coherence with the objectives of the DAC.** It does so based on a thorough process in terms of risk analysis, and a robust approach to data relating to personal income taxation as well as corporate taxation. However, Croatia needs to continue its efforts to improve the use of DAC6 data and to monitor the outcome of the use of data, to estimate the increase in tax assessed more precisely.

## 5. Digitalisation and Compliance

### 5.1. Digital Transformation, Skills, and Culture

**Croatia has made progress in the digitalisation of its tax administration, with investments under the Recovery and Resilience Plan (RRF) and underpinned by the Digital Croatia Strategy 2032.**

The Croatian Tax Administration has set out a comprehensive digital transformation strategy, supported by dedicated measures to identify digital skills and foster a digital culture among staff <sup>(50)</sup>. The RRF has allocated over EUR 280 million to digitalise public administration, including tax and justice systems, and to deploy a digital identity card and a one-stop-shop for online public services.

**Croatia has embraced digital identity for both individuals and businesses, using the NIAS (National Identification and Authentication System) credential for secure access to e-Tax Administration services <sup>(51)</sup>.** The country is actively advancing the once-only principle: citizens and businesses provide standard information to authorities only once, with a central hub for secure data exchange across public registries <sup>(52)</sup>.

### 5.2. Front-end Digitalisation

#### 5.2.1 Pre-filling

**Croatia provides pre-filled PIT returns <sup>(53)</sup>.** The tax administration automatically prepares annual PIT assessments for most employees and pensioners using third-party data (e.g., employers, pension funds, banks). Taxpayers are generally not required to file a return unless they want to claim additional allowances or in complex cases. Pre-filling for PIT is common across the EU, with most Member States offering some form of pre-filled PIT return. However, according to a recent Eurobarometer survey, only

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<sup>50</sup> OECD Inventory of Tax Technology Initiatives 2024. Accessible at: <https://data-explorer.oecd.org>. Note: data is self-reported by tax administrations and therefore not 100% objective or comparable.

<sup>51</sup> Government of Croatia, e-Tax Administration - submission of various requests, <https://gov.hr/en/e-tax-administration-submission-of-various-requests/2238>

<sup>52</sup> European Commission 2017, Factsheet: Access to Base Registries in Croatia, [https://interoperable-europe.ec.europa.eu/sites/default/files/inline-files/Croatia%20Factsheet%20Validated\\_1.pdf](https://interoperable-europe.ec.europa.eu/sites/default/files/inline-files/Croatia%20Factsheet%20Validated_1.pdf)

<sup>53</sup> OECD Inventory of Tax Technology Initiatives 2024 ([OECD Data Explorer • Inventory of Tax Technology Initiatives](#)) - Derived indicators: Filing channels.

29% of citizens in Croatia find it “very easy” or “fairly easy” to complete their tax returns, placing them 25<sup>th</sup> among EU Member States (<sup>54</sup>).

**Croatia does not provide pre-filled CIT returns.** CIT returns must be prepared and filed by taxpayers themselves. (Partial) pre-filing for CIT is rare in the EU, and most Member States, including Croatia, did not pre-fill CIT returns in 2022, largely due to the complexity and variability of corporate tax bases (<sup>55</sup>).

**Croatia does not provide pre-filled VAT returns for most taxpayers.** VAT returns are prepared and submitted by taxpayers, although all filings are electronic via the ePorezna portal. However, there are plans to introduce pre-filled VAT forms for small and medium taxpayers as part of the ongoing digitalisation and *Fiscalisation* reforms. This is expected to be implemented alongside the rollout of mandatory B2B e-invoicing and real-time reporting.

## 5.2.2 E-filing

**In Croatia, the share of taxpayers submitting their tax returns electronically is very high for both CIT and VAT, and somewhat lower—but still substantial—for PIT.**

**For corporate income tax (CIT), 98% of returns were filed electronically in 2023 (<sup>56</sup>).** This is above the EU average of 97.1% and has been consistently high in recent years, reflecting Croatia’s advanced digital infrastructure for business taxpayers.

**For value added tax (VAT), 99.9% of returns were filed electronically in 2023 (<sup>57</sup>).** This puts Croatia near the top of the EU, matching or exceeding the EU average of 99.2%. Universal e-filing for VAT has been the standard in Croatia for several years, supported by the ePorezna portal and mandatory digital submission rules.

**For personal income tax (PIT), the e-filing rate was 73.8% in 2023 (<sup>58</sup>).** While this is a strong figure, it is below the EU average of 87.1%. The e-filing rate for PIT in Croatia has been rising over the years, but it still lags behind leading countries such as Denmark, Italy, and Portugal, where nearly all PIT returns are filed electronically. The lower, but still substantial rate for PIT may however indicate barriers to digital filing, such as lower digital literacy, limited access to digital tools, or more complex tax situations that discourage electronic submission.

**These high e-filing rates for CIT and VAT suggest that Croatia’s e-filing systems are user-friendly, accessible, and well-integrated into business processes.** This makes compliance easier, reduces paperwork, and minimises errors for most taxpayers.

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<sup>54</sup> European Commission: Directorate-General for Taxation and Customs Union and Directorate-General for Communication, *Citizens' attitudes towards taxation – Eurobarometer report*, European Commission, 2025, <https://data.europa.eu/doi/10.2778/6066713>

<sup>55</sup> OECD Inventory of Tax Technology Initiatives 2024 ([OECD Data Explorer • Inventory of Tax Technology Initiatives](https://data.oecd.org/tax/Inventory-of-Tax-Technology-Initiatives)) – Derived indicators: Filing channels.

<sup>56</sup> International Survey on Revenue Administration data. [https://data.imf.org/en/datasets/ISORA:ISORA\\_LATEST\\_DATA\\_PUB](https://data.imf.org/en/datasets/ISORA:ISORA_LATEST_DATA_PUB)

<sup>57</sup> Ibid.

<sup>58</sup> Ibid.

### 5.2.3 Provision of other online Services

**Croatia's Tax Administration offers a broad range of digital services through the ePorezna portal.** This includes centralised account access, secure digital communication, document upload tools, and online payment options <sup>(59)</sup>. For example, taxpayers can access pre-filled PIT assessments, manage their tax cards, submit supporting documents, or request certificates (income, residence, financial standing) <sup>(60)</sup>. Croatia also actively uses service channel statistics to encourage taxpayer adoption of online services, develop new or improved tools, anticipate service demand, and reduce ICT disruptions. However, according to a recent Eurobarometer survey, only 23% of citizens in Croatia believe that support for filing tax returns provided by the tax administration is either fully adequate or mostly adequate, placing them 27<sup>th</sup> among EU Member States and indicating scope to move further towards a fully digital tax filing system, which was considered by 38% respondents in Croatia as a useful measure to improve tax filing - the highest proportion of respondents in all EU countries <sup>(61)</sup>.

## 5.3. Back-end Digitalisation

### 5.3.1 Use of Artificial Intelligence by the Tax Administration

**At the time of writing of this document, the Croatian Tax Administration (CTA) does not officially report the use of artificial intelligence (AI) in its tax administration.** According to the latest OECD Inventory of Tax Technology Initiatives and the International Survey on Revenue Administration (ISORA), Croatia is listed among the EU Member States that do not use AI tools for tax administration purposes <sup>(62)</sup>. Other countries in this group include Luxembourg, Slovakia, the Netherlands, Malta, and Romania. However, Croatia has indicated that it does use AI for its virtual assistant. There is also a pilot project for predictive analytics and machine learning tools for VAT fraud detection, developed with CROZ and EU funding, to analyse taxpayer data and transaction networks, helping to identify and prevent VAT carousel fraud. However, this use remains at the pilot or targeted project level and is not system-wide or formally reported in international surveys <sup>(63)</sup>.

## 5.4. Compliance Risk Management

### 5.4.1 Compliance Risk Management Strategy

**Croatia's tax administration has a formal compliance risk management (CRM) strategy in place, as confirmed by the latest ISORA data <sup>(64)</sup>.** The CRM system was introduced as part of the Revenue

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<sup>59</sup> ISORA database, [7. Taxpayer service - ISORA – tabs "Online services 1" and "Online services 2"](#)

<sup>60</sup> Government of Croatia, e-Tax Administration - submission of various requests, <https://gov.hr/en/e-tax-administration-submission-of-various-requests/2238?utm>

<sup>61</sup> European Commission: Directorate-General for Taxation and Customs Union and Directorate-General for Communication, *Citizens' attitudes towards taxation – Eurobarometer report*, European Commission, 2025, <https://data.europa.eu/doi/10.2778/6066713>.

<sup>62</sup> TaxAdmin AI, State of use of AI tax system – Croatia, <https://taxadmin.ai/country/croatia-ai-country-report/>

<sup>63</sup> Ibid.

<sup>64</sup> ISORA data, [ISORA CRM Strategy tab](#).



Administration Modernisation Project and is now fully operational, supported by national budget financing after initial donor support <sup>(65)</sup>.

**The CRM strategy in Croatia includes a systematic approach to identifying, assessing, and prioritising key compliance risks.** The system uses data analytics and risk indicators to cluster taxpayers into different risk categories. High-risk taxpayers are targeted for risk-based audits, while lower-risk taxpayers may benefit from automated processes, such as automatic VAT refunds. The CRM system is applied across all major taxes and taxpayer segments, including those managed by the Large Taxpayer Office (LTO), which systematically screens all covered taxpayers for major risks. The existence of a formal CRM strategy ensures that the Croatian Tax Administration can allocate its limited audit and enforcement resources more efficiently, focusing on areas and taxpayers with the highest risk of non-compliance. This targeted approach helps to increase the effectiveness of audits, improve voluntary compliance, and reduce the overall tax gap. The use of modern IT tools and analytics for risk detection allows the administration to act preventively, discouraging tax evasion and increasing taxpayer confidence in the tax system <sup>(66)</sup>.

## 5.4.2 Audit Types

**Croatia's tax administration performs a wide range of post-filing audit activities <sup>(67)</sup>.** The Croatian Tax Administration (CTA) conducts desk audits, which involve reviewing submitted tax returns and supporting documentation without visiting the taxpayer's premises. Limited scope audits are also performed, focusing on particular tax issues or transactions, allowing the CTA to efficiently address specific risks. Single issue audits are used to target a single area of risk or a specific transaction, such as suspicious VAT refund claims or payroll tax compliance. Comprehensive audits are undertaken when a full review of a taxpayer's affairs is required, covering all relevant tax types and obligations, and are typically reserved for high-risk or large taxpayers. Additionally, the CTA conducts investigations into tax avoidance and evasion, including cases of fraud and artificial arrangements designed to reduce tax liability. These investigations can lead to criminal referrals and prosecution for serious offences <sup>(68)</sup>. Before launching formal audits, the CTA often uses risk review letters to prompt taxpayers whose returns or activities show anomalies or risk indicators to review and, if necessary, correct their filings. This encourages voluntary compliance and can reduce the need for full audits. The administration also relies on automated data monitoring to flag late or missing returns, inconsistencies, or unusual patterns, and may contact taxpayers electronically through the ePorezna portal to clarify or address issues before a formal audit is initiated. For large or transparent taxpayers, Croatia has introduced horizontal monitoring (cooperative compliance), which involves ongoing dialogue and preventive checks rather than traditional audits <sup>(69)</sup>. The implications of this approach are significant: by employing a variety of audit types and pre-audit interventions, the CTA can match audit intensity to

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<sup>65</sup> World Bank Group and IEG,, Croatia Revenue Administration Modernization Project, Project performance assessment report, 2020, [https://ieg.worldbankgroup.org/sites/default/files/Data/reports/ppar\\_croatiarevenueadmin.pdf](https://ieg.worldbankgroup.org/sites/default/files/Data/reports/ppar_croatiarevenueadmin.pdf).

<sup>66</sup> Croatian Ministry of Finance, Strategy of the Tax Administration for the period 2016-2020, <https://porezna-uprava.gov.hr/UserDocImages/arhiva/en/Documents/Strategy%202016-2020%20final.pdf>.

<sup>67</sup> ISORA data, tab "Post filing enforcement actions".

<sup>68</sup> ISORA data, tab "Post filing enforcement actions" ; [Croatian Tax Administration Strategy](#).

<sup>69</sup> ISORA data, tab "interventions after filing, intervention effectiveness".

the level of risk, allocate resources efficiently, and ensure broad coverage of the taxpayer population. This risk-based and preventive approach helps resolve issues quickly, promotes voluntary compliance, and reduces the administrative burden on both taxpayers and the tax authority.

### 5.4.3 Staff Dedicated to Audit, Investigation and Other Verification Functions

**In 2023, 22.3% of full-time equivalent (FTE) staff in Croatia's tax administration were dedicated to audit, investigation, and other verification functions <sup>(70)</sup>.** This is below the EU27 average, which was 32.2% in 2023. Between 2018 and 2023, Croatia's share of FTEs in audit-related roles increased from 20.23% to 22.3%, indicating that the tax administration has placed slightly more focus on audit related functions.

### 5.4.4 Additional Revenue from Audits as a Share of Total Revenue

**In 2023, additional revenue from audits in Croatia amounted to 0.42% of total net revenue <sup>(71)</sup>.** This figure is substantially below the EU27 average, which stood at 1.6% in 2023. Over the period from 2018 to 2023, Croatia's audit yield declined from 0.94% to 0.42%, while the EU27 average also decreased, from 2.77% to 1.6%. This relatively low share of additional revenue from audits in Croatia may be in part due to the country's comparatively low percentage of FTEs dedicated to audit, investigation, and verification functions, which was 22.3% in 2023, well below the EU27 average of 32.2%. This relatively low and declining figure could highlight the need to implement digital systems to target audits more effectively.

## 5.5. Tax Complexity

**Croatia ranks 19<sup>th</sup> out of the 27 Member States in the Tax Complexity Index ('TCI') <sup>(72)</sup>, where a higher rank corresponds to lower tax complexity.** The TCI is based on the Global MNC Tax Complexity Project, a joint research project of Deborah Schanz (LMU Munich) and Caren Sureth-Sloane (Paderborn University). The TCI 2024 places Croatia 26<sup>th</sup> among the Member States with regards to Tax Framework Complexity, and 9<sup>th</sup> with regards to Tax Code Complexity. This may indicate that whereas the structure of the tax regulations is somehow efficient (particularly in the area of transfer pricing, according to the authors), there is clear room to improve the tax processes carried out by the tax authorities (notably in the area of enactment, according to the authors).

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<sup>70</sup> Own elaboration based on ISORA data.

<sup>71</sup> Ibid.

<sup>72</sup> See: <https://www.taxcomplexity.org/> The aim of the Global MNC Tax Complexity Project is to identify the determinants of tax complexity, to develop and maintain an index measuring the level of tax complexity across countries [Tax Complexity Index, TCI] and to examine the effects of tax complexity. The Tax Complexity Index measures the complexity of a country's corporate income tax system as faced by multinational corporations. The closer a country is to the first position of the ranking, the lower level of complexity it exhibits, and vice versa.