Introduction of the Minimum Tax in Slovenia and Croatia

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Abstract: In the past decade, multinational companies have exploited differences in tax systems between countries to reduce their tax liabilities. In response, the OECD, in collaboration with the G20, has established a global minimum tax agreement to ensure fairer taxation and reduce base erosion and profit shifting. This measure promotes transparency, reduces profit transfers to tax havens, and encourages responsible tax policies. Both Slovenia and Croatia have joined the global minimum tax agreement and have started implementing measures to comply with new international standards aimed at preventing tax avoidance through the use of tax havens. The introduction of the minimum tax is a significant step in combating tax evasion and improving global tax fairness, which will benefit both countries and the global economy in the long term.

Keywords: base erosion; global agreement; minimum tax

1. Introduction

The principles and rules of international tax law form the basis for tax planning in cross-border economic activities. While all entities engaged in cross-border business are inherently exposed to increased tax risks, effective tax planning can achieve substantial tax savings (Gadžo, 2015, p. 743). The integration of national economies and markets has significantly increased in recent years, placing pressure on international tax rules that were designed over a century ago. Weaknesses in current rules create opportunities for base erosion and profit shifting (BEPS), necessitating drastic actions by policymakers to restore trust in the system and ensure that profits are taxed where economic activities occur, and value is created (OECD, 2020b, p. 3). The rapidly evolving digital economy, with traditional tax laws, faces unparalleled challenges regarding digital business models that transcend geographical boundaries and enable companies to operate with minimal physical presence. Global tax revenue factors, bureaucracy, accountability, intangible assets, risks, capital, and tax system costs influence transfer pricing and tax authorities. Capital and accountability correlate with global tax

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revenue as investments and stable tax environments increase tax revenue with accountability. Intangible assets, costs, risks, and bureaucracy inversely correlate with global tax revenue as risks, costs, and tax imbalances reduce tax revenue (Challoumis, 2018, pp. 1-2).

To address such challenges, it is essential to develop effective tax policies that replace conventional ones and incorporate principles such as value creation, connections, and fairness, crucial for addressing profit shifting and tax avoidance strategies used by multinational corporations (Kuba Nembe & Idemudia, 2024). Two leading organizations, the Organization for Economic Cooperation and Development (OECD) and the Group of Twenty (G20), have led international efforts to tackle digital economy tax challenges through their BEPS project. In 2022, the European Directive on ensuring a global minimum tax rate for multinational and large domestic groups established a unified European framework for addressing tax challenges and mandated member states to implement measures aligned with the directive's objectives. Slovenia and Croatia, as full EU members, were obligated to transpose its provisions into their national legal systems. This paper will explore whether these obligations have been met, the implementation methods, and the content of these measures.

2. Theoretical Framework

2.1. Historical Overview of International Taxation Development

International tax matters have never been as prominent on the political agenda as they are today. The growing integration of national economies and markets has significantly increased pressure on the existing international tax framework, which is still largely based on rules developed over a century ago. The shortcomings of these rules have opened the door to Base Erosion and Profit Shifting (BEPS), highlighting the urgent need for decisive action by policymakers to restore trust and ensure that profits are taxed where real economic activity and value creation take place. In February 2013, the OECD published the report Addressing Base Erosion and Profit Shifting, which led to the adoption of a 15-point action plan by OECD and G20 countries in September 2013. The plan outlined measures under three main pillars: ensuring compliance with domestic rules affecting cross-border operations, strengthening substance requirements in existing international standards, and enhancing transparency and legal certainty. Since its adoption, G20 and OECD member states have worked together on an equal footing to implement the plan, with the European Commission regularly contributing expert insights. Developing countries have also played an active role through various channels, including direct participation in the Committee on Fiscal Affairs. Regional tax organizations, such as the African Tax Administration Forum, the Centre de Rencontre des Administrations Fiscales, and the Inter-American Center of Tax Administrations, along with international organizations like the IMF, World Bank, and United Nations, have contributed to the work. Stakeholders were invited to participate and provide input; over 1,400 contributions were received from industries, consultants, NGOs, and academia. Fourteen public consultations were live-streamed, and webinars were occasionally held to engage the public and answer questions. After two years of work, all measures were finalized. The comprehensive BEPS package represents the first significant overhaul of international tax rules in nearly a century. The new measures aimed to ensure that profits were reported where economic activities occurred and where economic value was created (OECD, 2015, pp. 3-4).

Globalization necessitates global solutions and dialogues beyond the OECD and G20 countries. To further achieve this, the OECD and G20 created the Inclusive Framework on BEPS in 2016, bringing together over 135 jurisdictions on an equal footing in the Committee on Fiscal Affairs. The Inclusive

Framework monitors and evaluates the implementation of BEPS minimum standards and finalizes work on developing standards to address BEPS issues. Alongside jurisdictional members, other international organizations and regional tax bodies consult businesses and civil society on various work streams. Addressing the tax challenges arising from digitalization has been a top priority for the BEPS project and Inclusive Framework since 2015. BEPS Project 1 mainly consisted of recommendations that remained unimplemented worldwide. The EU adopted some action points through directives like ATAD, but regional approaches faced limitations due to the need for global harmonization. BEPS Project 2 addressed Project 1's shortcomings by developing a plan for international taxation, tackling the most pressing concerns through two pillars. BEPS Project 2 includes two pillars addressing key challenges in the international tax system (Reuven & Young, 2022, pp. 525-526). Kerschner and Somare (2017, p. 8) also agree that BEPS causes a loss of tax revenue for countries and reduces the fairness of tax systems. They emphasize that the OECD, by establishing the BEPS framework, highlighted the need for international cooperation among OECD member states and other jurisdictions to effectively implement BEPS measures. To this end, the OECD has encouraged countries to adopt and implement the recommendations from the BEPS action plan.

The implementation of measures has been ensured through changes in domestic legislation, practices, and tax treaties, using a multilateral instrument (hereinafter referred to as BEPS MLI), which includes more than 90 jurisdictions (OECD, 2020a, p. 3). The BEPS MLI facilitates the swift introduction of measures to strengthen existing tax agreements to prevent abuses such as profit shifting to low or zero-tax jurisdictions and "treaty shopping." Key measures ensure that tax agreements are used in accordance with their purpose and objectives. Additionally, the BEPS MLI improves mechanisms for resolving tax treaty disputes and includes arbitration procedures in more than 30 jurisdictions, further enhancing tax certainty. The BEPS MLI amends tax treaties designated as Covered Tax Agreements. These include double taxation avoidance agreements in force between BEPS MLI signatories for which all signatories have formally notified their desire for modification within their MLI positions (Information Brochure, 2023, p. 3).

The Inclusive Framework on BEPS, established in 2016 alongside the BEPS MLI, enables the participation of all interested countries and organizations, allowing for the coordinated implementation of measures (OECD, 2020a, p. 4). However, despite the established framework, BEPS results have been criticized for merely patching the deficiencies of the arm's length principle-based taxation system (Lips, 2018, p. 104). The BEPS Implementation Group continued working on this issue, leading to the preparation of two-pillar proposals in 2019 (OECD, 2020a, pp. 3-4). The proposed plan consisted of two elements: Pillar 1 and Pillar 2. Pillar 1 aims to allocate certain taxing rights to market jurisdictions where goods and services are sold. The second element, Pillar 2, seeks to introduce a globally harmonized minimum effective tax rate of 15 % (Devereux, 2023, p. 145).

The first pillar of international tax reform updated tax rules and adapted them to the 21st century by granting new taxing rights to market jurisdictions over multinational companies, regardless of their physical presence. Twenty-five percent of the residual profit of the largest multinational companies, exceeding a certain profitability threshold, will be redistributed to the market jurisdictions where users and customers of these companies are located (Amount A). Additionally, Pillar 1 will simplify the application of the arm's length principle in marketing and distribution activities (Amount B). It also includes measures to prevent and resolve disputes and solutions to address double taxation risks through a voluntary mechanism for low-capacity countries. Furthermore, it will eliminate and freeze digital services taxes (DST) to prevent harmful trade disputes (OECD, 2021, p. 14).

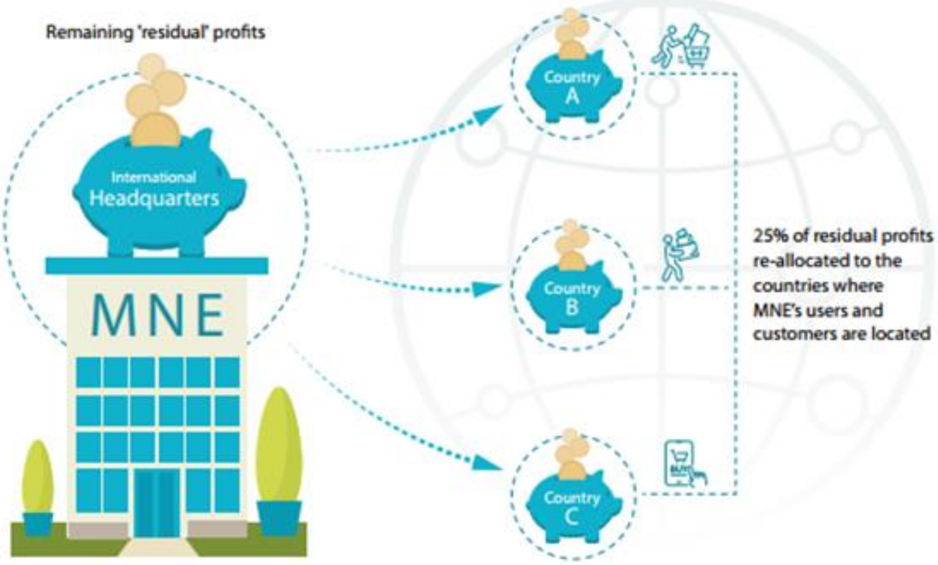

Figure 1. Illustration of the Rules for Redistributing Excess Profits of Multinational Companies

Source: OECD (2021, p. 14)

The second pillar sets a global minimum corporate tax rate of 15%, effectively creating a lower boundary for tax competition. Governments worldwide have agreed to apply supplementary taxes on foreign earnings of multinational corporations based in their territory, ensuring that such profits are taxed at least up to the minimum agreed rate. As a result, tax competition will now operate within the framework of a guaranteed baseline level of taxation, regardless of where a multinational conducts its business. An exception allows countries to continue offering tax incentives to promote business activities with substantial content, such as building a hotel or investing in a factory (OECD, 2021, p. 15).

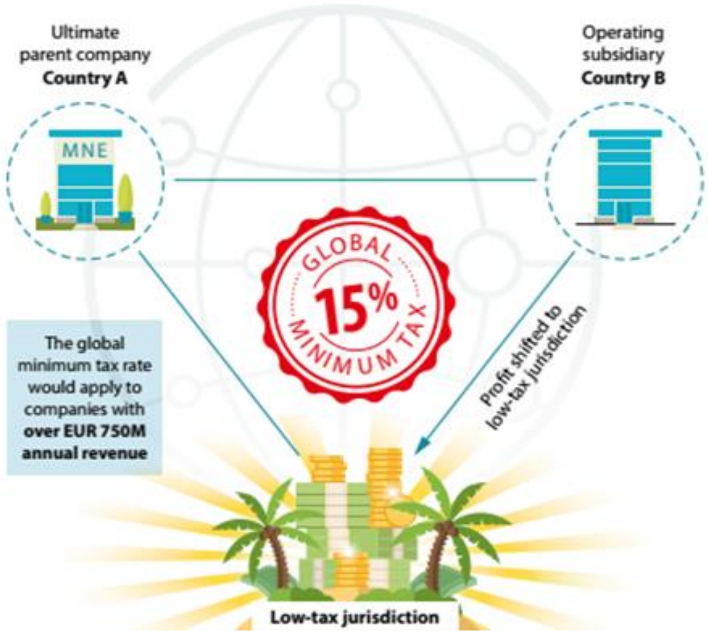

Figure 2. Illustration of the Minimum Taxation of Multinational Companies

Source: OECD (2021, p. 14)

Following years of in-depth negotiations to modernize the international tax framework for the digital age, 136[1] out of 140 jurisdictions involved in the OECD/G20 Inclusive Framework on BEPS have endorsed the statement supporting a two-pillar approach to tackle the tax issues linked to the digitalization of the global economy. This agreement builds upon and finalizes the political consensus reached among Inclusive Framework members for a thorough overhaul of international tax regulations. The significant agreement, endorsed by 136 countries and jurisdictions representing more than 90% of the global GDP, will enable the redistribution of over 125 billion USD of profits from approximately 100 of the world's largest and most profitable multinational enterprises to countries worldwide, ensuring that these companies pay a fair share of taxes wherever they operate and generate profits, while also providing comprehensive capacity-building support to countries in need (OECD, 2021, pp. 3-4).

2.2. The European Union's Approach to BEPS

The European Union (hereinafter: EU) has adopted a comprehensive approach to addressing issues related to BEPS. This approach includes several key measures and directives aimed at ensuring fair and effective taxation of multinational enterprises. Below are some of the key actions that have impacted the national legislation of EU Member States.

The main objective of the EU is to prevent tax avoidance and ensure that multinational enterprises pay their fair share of taxes. BEPS is a global initiative led by the OECD, and the EU actively participates in these efforts. According to Reuven and Young (2022, p. 524), many countries have become more willing in recent years to cooperate and align their tax rules to address tax competition.

In Europe, the financial crisis of 2008 triggered extensive austerity measures, which created political pressure to act against multinational enterprises (particularly American ones) that were not paying their fair share of taxes in Europe. Some countries, such as the United Kingdom and France, realized that traditional international tax rules requiring physical presence did not allow for the taxation of large technology companies, even though these companies were collecting user data and generating profits from their citizens. As a result, they introduced digital services taxes. This move sparked heated debates worldwide, prompting the OECD to launch the BEPS 1.0 project to modernize the international tax regime, which had failed to address the under-taxation of the digital economy, and to prevent trade wars arising from individually imposed digital services taxes (Johannesen, 2022, p. 5).

Recognizing that globalization and digitalization have created significant opportunities for tax avoidance, the OECD began a coordinated political effort in 2012 to address BEPS by multinational enterprises. The resulting Action Plan proposed a series of concrete policy measures aimed at closing specific avoidance schemes and improving the ability of tax administrations to detect tax evasion (OECD, 2013). In response to concerns that progress was insufficient, the OECD launched a new round of negotiations, ultimately leading to the two-pillar reform agreement reached in October 2021 (OECD, 2021). Pillar One reallocates certain taxing rights to countries based on where a company generates its sales. This is especially relevant in the digital economy, where value creation is highly mobile and firms can generate significant revenues in a country without maintaining a physical presence there. Pillar Two establishes a global minimum corporate tax rate of 15%, effectively setting a lower limit for the taxation of profits. The objective is to discourage profit shifting to low-tax

[1] Four countries – Kenya, Nigeria, Pakistan, and Sri Lanka – have not yet joined the agreement.

jurisdictions and to protect the tax base of countries with higher tax rates. Both components of the reform are planned to take effect starting in 2023 (Johannesen, 2022, p. 5).

Country-by-Country Reporting (hereinafter: CbCR) was introduced under the OECD and G20 Base Erosion and Profit Shifting (BEPS) framework as part of Action 13, aiming to prevent tax avoidance and ensure greater transparency in the international operations of multinational enterprises. CbCR was recommended for implementation for fiscal years beginning on or after January 1, 2016. The reporting requirement is mandatory for large multinational enterprises, which must submit their reports to the relevant tax authorities (OECD, n.d.). The European Union adopted Directive 2016/881/EU, which establishes the obligation of CbCR for multinational enterprises operating within the EU. This directive was part of the implementation of the OECD's global guidelines into EU law. The directive came into force on January 1, 2017, requiring CbCR for fiscal years starting from January 1, 2016. The directive mandates that companies with annual revenues exceeding 750 million euros must submit reports on their financial data for each country in which they operate. These reports must be sent to the competent tax authorities, who will then facilitate the exchange of this data with other EU Member States and relevant authorities worldwide (OECD, 2022, p. 6). The EU's objective with the CbCR directive was to increase corporate transparency and combat tax fraud. The aim of the directive is for companies to disclose key financial information by country to enhance tax transparency. The directive requires multinational enterprises to report their profits, taxes paid, and other key indicators for each EU Member State. This increases transparency and allows for better monitoring of corporate tax obligations (Kerschner & Somare, 2017, p. 13).

The Anti-Tax Avoidance Directive (ATAD), formally known as Directive (EU) 2016/1164, introduces legally binding measures that all EU Member States must implement to combat common forms of aggressive tax planning. The directive's goal is to provide a minimum level of protection against tax avoidance practices by companies within the EU while promoting a fairer and more stable business environment. The rules contained in the directive came into effect on January 1, 2020, except for the rules on hybrid mismatches, which have been in effect since January 1, 2022 (European Commission, n.d.). ATAD is a key part of the EU's approach to combating BEPS. The directive aims to ensure that multinational enterprises pay their fair share of taxes in the countries where they generate profits. The directive includes several important measures, such as Interest Limitation Rule – this rule prevents companies from reducing their tax base through artificial increases in interest expenses, Controlled Foreign Company (CFC) Rule – this ensures that profits shifted by multinational enterprises to low-tax jurisdictions are taxed in the parent company's country of residence, Hybrid Mismatch Rule – this rule prevents companies from exploiting differences in tax laws between countries to reduce their tax liabilities, General Anti-Abuse Rule (GAAR) – this empowers tax authorities to disregard tax schemes that lack commercial substance and are solely aimed at avoiding taxes and Exit Taxation Rule – this rule ensures that profits transferred from one Member State to another are appropriately taxed. The European Commission plays a crucial role in monitoring the implementation of BEPS measures in EU Member States and ensuring their compliance with EU law. The EU promotes close cooperation between Member States in exchanging information and coordinating tax policies. This includes the exchange of taxpayer data and the alignment of measures to prevent BEPS (Kerschner & Somare, 2017, pp. 15-18).

The European Union was one of the first to begin implementing the measures of Pillar Two. In 2022, it adopted Council Directive (EU) 2022/2523, aimed at ensuring a global minimum level of taxation for large multinational enterprise groups as well as significant domestic groups. This directive sets out rules designed to enforce a minimum corporate tax rate, in line with the global agreement reached by members of the Inclusive Framework on October 8, 2021, and based on the OECD's model rules published on December 20, 2021. Under this directive, EU Member States are required to incorporate the GloBE (Global Anti-Base Erosion) model rules from Pillar Two into their national legislation. Pillar Two consists of two core domestic mechanisms and one treaty-based provision: the Income Inclusion Rule (IIR) and the Undertaxed Payments Rule (UTPR), which together form the GloBE Model Rules. The treaty-based provision, known as the Subject to Tax Rule (STTR), enables source countries to levy limited tax on certain related-party payments that are taxed below the agreed minimum rate. However, since the implementation of STTR will be handled separately by each jurisdiction, the EU directive does not include it. The rules under Pillar Two apply to multinational groups and large domestic groups with consolidated annual revenues of at least EUR 750 million, based on their financial statements. This threshold was established by the Inclusive Framework to align with existing international corporate tax measures, such as country-by-country reporting standards. Certain types of entities are excluded from the scope of the GloBE rules, including government bodies, international organizations, non-profit entities, pension funds, and investment funds that serve as the ultimate parent entities of corporate groups. The Income Inclusion Rule imposes a top-up tax on the parent entity for income earned by group entities that is subject to low taxation. This rule follows a top-down approach, meaning that it is first applied by the ultimate parent entity, and if not applicable there, it is applied by intermediate parent entities. The IIR is subject to an ownership threshold, meaning that a partially owned parent entity applies the rule to its controlled entities if external shareholders hold more than 20% ownership. If there are multiple partially owned parent entities, the rule is applied by the one closest to the low-taxed entity within the group structure. The Undertaxed Payments Rule acts as a backstop to the IIR and applies in cases where the jurisdiction of the ultimate parent entity does not have an effective IIR or where the tax rate remains low. In such cases, the top-up tax is allocated based on how much low-taxed income remains untaxed under the IIR. The distribution is determined using two key indicators: the accounting value of assets within the jurisdiction and the headcount of employees located there. Under the GloBE Model Rules, a top-up tax is applied if a jurisdiction's effective tax rate (ETR) falls short of the 15% minimum threshold. In such cases, an additional tax is levied to ensure the ETR reaches the required minimum level. The ETR is calculated as the ratio of adjusted taxes to adjusted income for that jurisdiction. The ETR test triggers the application of Pillar Two rules and determines how much additional tax the multinational enterprise group must pay. The detailed implementation plan, included in the October 2021 statement by the Inclusive Framework, stated that national implementation provisions for the GloBE Model Rules should be introduced and applied from January 1, 2023. However, the UTPR was delayed and is set to apply from January 1, 2024. As a result, the transposition and enforcement of laws and regulations necessary to comply with this directive in national legal systems had to be completed by December 31, 2023, as specified in Article 56 of Council Directive (EU) 2022/2523 (Directive (EU), 2022).

3. Methodology

3.1. Purpose and Objectives of the Research

In recent years, the taxation of the digital economy has emerged as one of the key challenges for tax authorities worldwide. In 2013, the OECD launched the BEPS (Base Erosion and Profit Shifting) project, designed to develop comprehensive measures to prevent tax avoidance by multinational enterprises. Digital companies often benefit from lower effective tax rates compared to traditional businesses, causing distortions in the tax system and unfair competition. Tax authorities face difficulties in ensuring compliance, primarily due to the lack of standardized reporting and data exchange mechanisms. To maintain fair taxation of digital businesses and ensure fiscal sustainability, countries must develop and implement effective tax policies that promote fairness and prevent tax avoidance. Such policies enable international cooperation and alignment of tax standards while providing legal certainty that encourages innovation and business growth in the digital age. The implementation of these policies is essential to safeguard government revenues and support sustainable economic development. This research presents theoretical insights into the BEPS project, G20 discussions, and the challenges faced by European tax authorities in taxing the digital economy. Additionally, it highlights the importance of developing effective tax policies, using Slovenia and Croatia as case studies to address these challenges, which is reflected in the following research question.

3.2. Research Questions

The research is based on the following research question:

RQ1: Have Slovenia and Croatia implemented the provisions of Council Directive (EU) 2022/2523 on ensuring a global minimum tax rate for multinational enterprise groups and large domestic groups in their national legal systems on time?

3.3. Methods and Techniques of Data Collection

The research utilized various social science research methods. The study began with the data collection method, through which existing literature was reviewed. The historical method was used to provide a brief overview of the activities of the OECD and G20. To examine the legal frameworks and professional literature, the descriptive analysis method was applied. The views and opinions of authors were considered through the compilation method. For presenting the legislative framework of the directive in Slovenia and Croatia, the data analysis method was used. Based on the analysis of each country's legislative framework in relation to Council Directive (EU) 2022/2523, the forecasting method was employed, along with inductive and deductive methods to some extent.

3.3.1. Description of the Instrument

The main research instrument used in this study is the analysis of secondary sources – this includes legislative texts, official EU documents, national legal acts, scholarly articles, as well as OECD and G20 reports. The content analysis of these sources enabled a review of the compliance of national regulations with the provisions of the directive and an assessment of the timeliness of its implementation.

3.3.2. Description of the Sample

Since the research is based on a case study approach, the sample includes two EU Member States – Slovenia and Croatia. The sample was selected purposefully, as it allows for a comparison of two different national approaches to the implementation of the directive, while taking into account similarities in market size, geographic location, and legal systems.

3.3.3. Description of Data Collection and Processing

The data were collected from reliable secondary sources: national laws and regulations, official publications on the websites of the Ministries of Finance, publications of the European Commission, OECD reports, and academic and professional articles. The collected data were processed using qualitative content analysis, with a focus on identifying the compliance of national legislation with Directive 2022/2523 and determining the timeline of its implementation. A comparative analysis between the two countries was used to identify differences and similarities in their approaches to implementation.

3.4. Research Results

The following part of the research presents the results obtained through an examination of the topic and a comparative analysis of taxation approaches in Slovenia and Croatia. The results are presented descriptively, critically evaluated, and causally explained, providing a comprehensive insight and highlighting the differences in the implementation of tax measures between the two countries.

3.4.1. Regulation in Slovenia

The OECD's BEPS project highlighted the importance of introducing Country-by-Country Reporting (CbCR) as a key measure to ensure tax transparency and prevent base erosion and profit shifting. In Slovenia, a significant step toward obtaining information on the ownership structure of multinational enterprises was taken in 2016 with the introduction of CbCR. Since July 1, 2016, the provisions of the Rules Amending the Rules on the Implementation of the Tax Procedure Act have been in effect, supplementing the rules on data exchange and country-by-country reporting, as implemented through the Amendment to the Tax Procedure Act (ZDavP-2J). The amendment transposed the provisions of Council Directive 2014/107/EU, which amended Directive 2011/16/EU on mandatory automatic exchange of information in the field of taxation, particularly regarding financial account information (Kunšek, 2017).

In the Republic of Slovenia, corporate income taxation is regulated by the Corporate Income Tax Act (ZDDPO-2). The statutory corporate tax rate under ZDDPO-2 has remained unchanged at 19% for several years. However, the effective tax rate, according to OECD data, is lower, averaging less than 15% (ranging between 14.7% and 14.8% in recent years). The Draft Law on Minimum Tax (ZMD) indicates that the minimum tax is a separate tax from the corporate income tax, but it is closely related to it.

On December 22, 2023, Slovenia introduced the obligation to pay top-up tax by adopting the Law on Minimum Tax (ZMD, 2023). The law took effect the day after its publication and applies to fiscal years starting on December 31, 2023. Provisions of Articles 15 and 16, except for Article 18, will apply to fiscal years starting on December 31, 2024.

According to the Draft Law on Minimum Tax (2023), in 2019, based on CbCR data, 412 multinational enterprise groups with either parent companies in Slovenia or subsidiaries in Slovenia were identified, generating at least EUR 750 million in annual global revenues. Of these, 144 multinational groups had an effective tax rate below 15% in Slovenia in 2019, with an average unweighted effective tax rate of 8.72%. Based on these figures, it is estimated that the law will impact 184 multinational groups. The total annual tax liability of companies within these groups that are tax residents in Slovenia is approximately EUR 27 million. The introduction of the domestic top-up tax rule is expected to generate additional tax revenues for Slovenia's state budget in the first year, increasing by around EUR 10 million annually as the substance-based income exclusion percentage stabilizes at 5%.

Regardless of revenue size, excluded entities, as defined in Article 6(3) of the law, and those operating in safe harbors, will not be subject to the law. Safe harbor data will be based on CbCR income and profit data and tax data from financial statements (Prislan, 2023).

An international comparison shows that the average statutory tax rate in the EU-27 was 21.4% in 2022, placing Slovenia 18th among EU countries. The Slovenian draft law allows for the use of various options provided by the EU directive, the most important being the introduction of the qualified domestic top-up tax obligation. This will enable Slovenia to collect top-up tax from low-taxed entities within multinational groups located in Slovenia. Slovenia will need to officially notify the European Commission, providing certainty to other tax authorities and international businesses regarding the application of this tax. The top-up tax system will be based on two main rules within the law, with the qualified domestic top-up tax being applied first. The broader adoption of this system within the EU and globally indicates the potential to ensure minimum taxation of multinational enterprises in the future. However, such claims remain premature at this stage (Kunstek, 2023).

3.4.2. Regulation in Croatia

The automatic exchange of CbCR, introduced by the Republic of Croatia in 2018, is a key measure under the OECD's BEPS project. Croatia joined the automatic exchange of CbCR with EU Member States and third countries based on the Multilateral Competent Authority Agreement on the Exchange of Country-by-Country Reports (Official Gazette, International Agreements, No. 1/18). According to the Act on Administrative Cooperation in the Field of Taxation (Official Gazette, No. 115/16, 130/17) and the Regulation on the Automatic Exchange of Information in the Field of Taxation (Official Gazette, No. 18/17), the entities required to submit CbCR are ultimate parent entities or other constituent entities of a multinational enterprise group with total consolidated revenue exceeding EUR 750 million and that are tax residents of Croatia (Horvatič, 2022).

The obligation to pay corporate income tax in Croatia is regulated by the Corporate Income Tax Act (Official Gazette, No. 177/04, 90/05, 57/06, 146/08, 80/10, 22/12, 148/13, 143/14, 50/16, 115/16, 106/18, 121/19, 32/20, 138/20, 114/22, and 114/23). The tax obligation is determined for each taxpayer individually and not at the group level for companies or entities operating in Croatia. The corporate income tax rate is 18% for taxpayers with annual revenues above EUR 1 million and 10% for those with annual revenues below EUR 1 million. As highlighted in the Draft Law on Minimum Tax (2023), the introduction of the minimum tax will not affect the procedure or method for determining the corporate income tax base or corporate tax liability. According to the draft law, the top-up tax base must take into account the operations of all entities within a multinational group in the country, jurisdiction, or globally, while the corporate income tax obligation is calculated for each entity individually. From the perspective of a global solution for the digital economy, corporate income tax is considered a local tax, whereas the top-up tax introduced under the draft law is a global tax. The discussions held by the Finance and State Budget Committee (Croatian Parliament, 2023) indicated that Croatia does not have any qualifying multinational enterprises of its own. However, in accordance with the directive, which will take effect on January 1, 2024, Croatia is still required to exchange profit-related data with other countries. The estimated tax revenue from the introduction of the Minimum Tax Act is EUR 7.7 million, and no significant negative impact on the investment interest of entrepreneurs is expected.

The Minimum Global Corporate Income Tax Act was published on December 22, 2023, and came into force on December 31, 2023. This law applies to fiscal years starting on December 31, 2023, or later. However, the provisions of Articles 14, 15, and 16, except for Article 56, paragraph 1, will apply to fiscal years starting on December 31, 2024, or later. Through this law, Croatia has implemented the provisions of Council Directive (EU) 2022/2523 and established measures to ensure a minimum effective taxationof profits for multinational enterprise groups and large domestic groups. The law specifies the covered entities, the method for calculating the effective tax rate, the calculation of the top-up tax base and liability, the excluded entities, the procedure for collecting information on covered entities, and the method of submitting returns and paying the top-up tax.

By way of example, let us provide a calculation for a taxpayer with annual revenues below EUR 1 million, taxed at a 10% corporate tax rate. Under this law, if the company generates EUR 500,000 in profit in Croatia and currently pays EUR 50,000 in tax (10%), but the minimum tax requirement is EUR 75,00 (15%), the taxpayer will have to pay an additional EUR 25,000 to reach the minimum tax rate. This law is expected to have a positive impact on state budgets by encouraging multinationals to pay higher taxes, creating a fairer business environment, as domestic companies will no longer be at a disadvantage compared to multinationals. Despite these benefits, there are also challenges in implementing the law, such as the complexity of calculating tax liabilities and monitoring global revenues of companies. International coordination and cooperation will be key to the successful implementation of the law. Some critics have pointed out that this tax could reduce competitiveness for countries with low tax rates, but the OECD believes that in the long term, it will contribute to a more stable and fairer tax system (Uljanić Škreblin, 2024).

In Croatia, there is now a requirement to pay a qualified domestic top-up tax. The obligation to pay this tax will apply to the parent company of a multinational group based in Croatia, the parent company of a large domestic group, and all their constituent entities located in Croatia, if their effective tax rate calculated under the law is below 15%. The purpose of introducing the qualified domestic top-up tax is to protect Croatia's tax base, meaning that the additional tax liability arising from activities conducted in Croatia is collected in Croatia rather than in the country where the multinational group's headquarters is located. Multinational companies are offered the possibility of relief for entities that generate small revenues and profits in a particular country or jurisdiction (de minimis exclusion). By introducing the Minimum Global Corporate Income Tax Act, Croatia is participating in a major global tax reform, aimed at limiting competition based on low tax rates by establishing a global minimum tax rate. This reform ensures a level playing field for multinational groups worldwide and allows countries to protect their tax bases (Iljazović, 2024).

3.5. Research Findings

The research has shown that the implementation of the global minimum tax in Slovenia and Croatia aligns with the objectives set within the OECD's BEPS measures. In Slovenia, the Law on Minimum Tax, effective from December 31, 2023, introduced the obligation to pay top-up tax for multinational enterprises with consolidated revenues exceeding EUR 750 million. This tax includes the qualified domestic top-up tax rule, which grants Slovenia the right to collect top-up tax from low-taxed entities operating within its borders. The legislation is expected to impact approximately 184 multinational groups that are tax residents in Slovenia. While the current annual tax liability of these companies is

EUR 27 million, the introduction of the top-up tax is expected to generate additional revenues, especially in the coming years as tax reliefs are gradually phased out.

In Croatia, a similar law was adopted in December 2023, with its application starting on the same date as in Slovenia. Certain additional provisions related to profit shifting rules and tax allocation mechanisms will take effect on December 31, 2024. The expected tax revenues from the top-up tax in Croatia are estimated at approximately EUR 7.7 million. Croatian legislation also includes specific provisions for reliefs that reduce tax liabilities for entities with low revenues and profits, enabling the use of "de minimis" rules. Although the expected revenues are modest, the law represents an important step towards greater tax transparency and alignment with international standards.

Country-by-Country Reporting (CbCR), as a key component of the BEPS measures, plays a crucial role in ensuring tax transparency and enabling information exchange between countries. Multinational enterprises are required to report their revenues, profits, taxes paid, and other key indicators separately for each country in which they operate. Both Slovenia and Croatia have adopted legislation to include the automatic exchange of these reports with EU Member States and third countries. This measure not only increases transparency but also allows tax authorities to better monitor corporate tax obligations and identify and prevent profit-shifting practices. In relation to the research question of whether Slovenia and Croatia have timely implemented the provisions of Council Directive (EU) 2022/2523 on ensuring a global minimum tax rate for multinational enterprise groups and large domestic groups into their national legal systems, the answer is affirmative.

Despite the significant benefits discussed in the research, the reform also presents certain challenges. One of the main challenges is the complexity of calculating tax liabilities, along with the need for ongoing alignment with international rules and a high level of financial and legal expertise required to implement the legislation. Additionally, the introduction of a global minimum tax requires close international cooperation, as inconsistencies between countries could lead to uneven collection of tax revenues. It is crucial that countries adapt to the new rules as much as possible and allocate sufficient administrative resources to ensure the effective implementation of measures.

4. Conclusion

The implementation of a global minimum tax in Slovenia and Croatia represents an important step toward a fairer tax system, aimed at reducing BEPS (Base Erosion and Profit Shifting) to low-tax jurisdictions. By introducing this tax, both countries not only fulfill their international obligations, but also strengthen their tax sovereignty and ensure that tax revenues generated within their jurisdictions are collected where the profits are created. Although the initial tax revenues are modest, as seen in Croatia's estimate of EUR 7.7 million, the reform brings long-term benefits in the form of greater transparency and fairness in taxation, while ensuring alignment with the BEPS goals. The already established Country-by-Country Reporting (CbCR) serves as a key tool that enables tax authorities to better address the challenges of international tax planning and enforce international tax regulations more effectively. This promotes responsible tax policies and strengthens trust in the international tax system.

Despite the adoption of the reform, it remains associated with challenges, such as aligning rules across jurisdictions, ensuring sufficient administrative capacity to handle additional tax data and related procedures, as well as adapting local legislation to international standards, which will need to be addressed on an ongoing basis. In the future, it will be crucial for EU Member States to closely cooperate in information exchange and rule alignment to prevent double taxation or jurisdictional disputes over tax collection. The global implementation of the minimum tax is gradually creating a more stable and fair environment for international business. Multinational enterprises are now required to pay their fair share of taxes in the countries where they generate profits. The reform also serves as a signal that the international community is taking serious steps to address the challenges of digitalization and globalization of the economy. The success of the reform will depend on further international cooperation, improvements in legislative processes, and transparent communication with all stakeholders, including businesses, the public, and international institutions.

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