FOSTERING RESEARCH, TECHNOLOGICAL DEVELOPMENT AND INNOVATION THROUGH FISCAL INCENTIVES TO IMPROVE COMPETITIVENESS – CASE STUDY OF CROATIA

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Abstract - Research, technological development and innovation (R&D&I) are a key factor in improving competitiveness, recognized by companies and countries around the world. For that reason, countries put strategic efforts in creating a favorable climate for R&D&I, most often through various instruments of state aid such as fiscal incentives and tax reliefs. Croatia has been fostering R&D&I through tax reliefs for many years, continuously improving its fiscal framework that is primarily aimed at the taxpayers of profit tax, more specifically, at the business sector. Croatia's current fiscal framework for fostering R&D&I is consisted of the Investment Promotion Act (Official Gazette 102/15, 25/18, 114/18) that provides profit tax rate deduction since 2015, and Croatia's latest Act on State Aid for Research and Development Projects (Official Gazette, No. 64/18) that provides profit tax base deduction since 2018.

Keywords - Competitiveness, Croatia, Fiscal Incentives, Research, Technological Development and Innovation

I. INTRODUCTION

Research, technological development and innovation (R&D&I) play an important role in improving competitiveness. R&D&I enables the creation of new knowledge, technologies and comparative advantages, improving existing strengths and creating new strengths, that ultimately lead to sustainable economic development and its successful inclusion on the global market, cohesion and better competitiveness. Therefore, R&D&I is key for improving competitiveness, both in companies and countries around the world, which is why countries foster R&D&I and continuously generate factors and develop policies that will create conditions for better positioning on the global market.

One of the most effective tools for stimulating R&D&I, and thus strengthening the economy and competitiveness, is state aid that directly or indirectly facilitates R&D&I. Horizontal state aid, targeted at horizontal objectives such as R&D&I, consists of indirect and direct financial incentives, and the most significant instruments of horizontal state aid are grants, favorable loans and tax incentives. There are many different tax incentives, but not all of them foster R&D&I or are present in all countries. More specifically, any tax reductions that the taxpayer deducts from the tax base is considered to be a tax relief or a tax deduction [1] that ultimately results with a tax return or a lower tax base (tax liability). Tax incentives can take on different forms, but they are usually divided into two categories: (1) tax holidays, and (2) investment tax allowances [2]. Investment tax incentives include following: (1) accelerated depreciation allowance, (2) investment expenditure allowance, and (3) investment tax credit.

The most widespread instruments for fostering R&D&I within the profit tax are the following: (1) research and development (R&D) tax credit which is a reduction in taxes based on R&D costs; (2) super-deduction which represents an additional R&D deduction that allows for expensing at a rate greater than the usual 100%; and (3) various intellectual property box tax schemes such as the so-called IP box, which envelops a reduced rate of corporate income tax generated from patents, designs, copyrights, and trademarks [3].

Croatia has been fostering R&D&I and improving competitiveness through fiscal incentives for almost 20 years. The newest tax incentive in Croatia is a deduction of income tax base encompassed in the latest Croatian Act on State Aid for Research and Development Projects (Official Gazette, No. 64/18) [4] that was adopted in 2018.

This paper aims to provide an overview of fiscal framework for fostering R&D&I in Croatia, its historical development, current legal acts and their main peculiarities.

The paper is consisted of four main chapters and is structured as follows. After introduction, the fiscal framework for fostering R&D&I in Croatia, its historical development and current legal acts are presented in chapter two. Chapter three outlines the comparative analysis of fiscal incentives for R&D&I in Croatia. The conclusion of this paper will be laid out

in chapter four.

II. FISCAL FRAMEWORK FOR FOSTERING R&D&I IN CROATIA

The analysis of the historical development of the fiscal framework for fostering R&D&I in Croatia identified that Croatia has been fostering R&D&I for almost 20 years through various tax incentives, some of which are no longer in force. This ongoing climate of continuous efforts to promote and facilitate R&D&I has surely had an impact on the fact that gross domestic expenditure on R&D (GERD) in Croatia in 2017 was 0,86% of GDP, and it has been on a rise since 2012, although remaining the same through 2016 and 2017 [5]. Furthermore, Croatia's GERD amounted to EUR 102 in 2017, noting a rise of 32% since 2012 [6]. Moreover, average business enterprise expenditure on R&D (BERD) per capita in Croatia amounted to EUR 49.30 in 2017, which signifies a slow, but steady, rise of BERD since 2012 when it amounted to only EUR 35.40 [7].

In order to improve their economic results, countries tend to use state aid to foster R&D&I with the aim of improving competitiveness and generating better economic results. Likewise, Croatia has been putting strategic efforts into creating a better climate for entrepreneurship, investments and R&D&I through state aid and fiscal incentives. According to the Annual Report on State Aid for 2017 of the Croatian Ministry of Finance [8], of total HRK 2,178.2 million of horizontal aid that was awarded in 2017, HRK 348 million was awarded for R&D&I, which amounts to approximately 16%. However, according to the Report, R&D&I support in 2017 was awarded exclusively through subsidies (grants) in the amount of HRK 348 million, which was an increase of HRK 334.8 million compared to 2016, when the aforementioned grants amounted to HRK 13.2 million, and an increase of HRK 317.6 million compared to 2015 when these grants amounted to HRK 30.4 million. In 2017 no tax reliefs were noted to have been awarded for R&D&I. The reason for that is most likely the lack of available data or that the ex post evaluation of awarded tax incentives in 2017 is still in progress. On the other hand, the data for previous years has shown that HRK 3 million of tax reliefs were awarded in 2016, and HRK 23.3 million in 2015. The share of support awarded for R&D&I in the total amount of grants awarded in Croatia in 2017 was 2.81%, while the share of these grants in the total grants awarded in the sector of industry and services is 4.84% [8]. The share of this state aid in support awarded for horizontal objectives is 15.98%, while the share in GDP in 2017 was 0.10% [8]. There is currently no available data about the state aid awarded in 2018. Croatia's current fiscal framework for fostering R&D&I provides profit tax base deduction and profit tax rate deduction, and the beneficiaries of tax reliefs under this legal framework in Croatia (former and current) are all taxpayers that have a legal income (profit) tax liability that is regulated under the Profit Tax Law (Official Gazette, No. 127/00, 163/03, 177/04, 90/05, 57/06, 146/08, 80/10, 22/12, 148/13, 143/14, 50/16, 115/16, 106/18) [11]. More specifically, this fiscal framework is aimed primarily at the business sector. Reduced income tax rate can also be considered as a specific type of tax incentive, although it is formally not a tax deduction in itself, such as Croatia's income (profit) tax rate of 12% for revenues up to HRK 3 million or 18% for revenues equal to or above HRK 3 million [9]. Other more developed countries usually have a higher income tax rate, accordingly to their economy's standard. The reason for this informal categorization is the fact that, although it does not affect the reduction of the tax base, it still has a positive impact on the final amount of investment and is thus the simplest and most efficient instrument of state aid [10].

A.Historical development of fiscal framework

Historical development of fiscal framework for fostering R&D&I in Croatia included several laws and legal acts which fostered R&D&I to a certain extent and for a limited period of time. As shown in Table I., such laws were Profit Tax Law (Official Gazette, No. 127/00, 163/03, 177/04, 90/05, 57/06, 146/08, 80/10, 22/12, 148/13, 143/14, 50/16, 115/16, 106/18) [11], Act on Scientific Activity and Higher Education (Official Gazette, No. 123/03, 198/03, 105/04, 174/04, 46/07, 63/11, 94/13, 139/13, 131/17) [12], and the Act on Investment Promotion and Development of Investment Climate (Official Gazette, No. 111/12, 28/13) [13].

FORMER FISCAL FRAMEWORK FOR FOSTERING R&D&I		
Valid: 2003-2006	Valid: 2007-2014	Valid: 2012-2015
Profit Tax Law (Official Gazette, No. 127/00, 163/03, 177/04, 90/05, 57/06, 146/08, 80/10, 22/12, 148/13, 143/14, 50/16, 115/16, 106/18)	Act on Scientific Activity and Higher Education (Official Gazette, No. 123/03, 198/03, 105/04, 174/04, 46/07, 63/11, 94/13, 139/13, 131/17)	Act on Investment Promotion and Development of Investment Climate (Official Gazette, No. 111/12, 28/13)

Table I. Overview of historical development of fiscal framework for fostering R&D&I in Croatia

The Profit Tax Law (Official Gazette, No. 127/00, 163/03, 177/04, 90/05, 57/06, 146/08, 80/10, 22/12, 148/13, 143/14, 50/16, 115/16, 106/18) [11] encouraged R&D&I in the period from 2003 to 2006. In fact, the term R&D in the Profit Tax Law (Official Gazette, No. 127/00) [14] of the Croatian Ministry of

Finance was first mentioned in 2000 as a tax expense item, or as a service recognized as an expense under the aforementioned Law. Thereafter, in the 2003 version, the same Law first defined the concepts of R&D and prescribed incentives for R&D (Law on Amendments to the Profit Tax Law, Official Gazette, No. 163/03) [15]. This Law provided tax incentives based on R&D by providing a deduction of tax base of 100% for R&D costs and 100% of the depreciation costs for acquired intangible assets. However, a new version of the Tax Profit Law in 2006 (177/04, 90/05, 57/06, 146/08, 80/10, 22/12, 148/13, 143/14, 50/16, 115/16, 106/18) [11] abolished the reduction of the tax base for all costs incurred for R&D.

After that, following the aforementioned abolishment of the tax relief for R&D in 2006, the Ministry of Science and Education adopted a new version of the Act on Scientific Activity and Higher Education in 2007 (Official Gazette, No. 123/03, 198/03, 105/04, 174/04, 46/07, 63/11, 94/13, 139/13, 131/17) [12] which introduced measures to encourage R&D. Within this law, a tax deduction of up to 100% of eligible project costs was available for basic research, up to 50% of eligible project costs for applied research, and up to 25% of eligible project costs for exploratory research. The aforementioned Act is still in force, however, the Ministry of Science and Education provided tax support under this Law only until the end of 2014, because at that time, a new Croatian state aid program for R&D projects was being drafted in line with the guidelines of the European Commission. In other words, measures for fostering R&D within the Act on Scientific Activity and Higher Education (Official Gazette, No. 123/03, 198/03, 105/04, 174/04, 46/07, 63/11, 94/13, 139/13, 131/17) [12] which were implemented since 2007, were abolished by the end of 2014. Another abolished law regulating R&D tax measures is the Act on Investment Promotion and Development of Investment Climate (Official Gazette 111/12, 28/13) [13], which has been instrumental in encouraging investment and improvement of the investment environment in Croatia. This Law was in force in 2012 and 2015, overlapping with the Act on Scientific Activity and Higher Education (Official Gazette, No. 123/03, 198/03, 105/04, 174/04, 46/07, 63/11, 94/13, 139/13, 131/17) [12] in this time period. Under this Act on Investment Promotion and Development of Investment Climate (Official Gazette 111/12, 28/13) [13], a profit tax rate deduction was available of up to 50% of the standard tax rate for the minimum of EUR 50.000 of investment for micro entrepreneurs, deduction of up to 50% of the standard tax rate for up to EUR 1 million of investments, 75% of standard tax rate for EUR 1-3 million of investments, 100% of standard tax rate for investments over EUR 3 million, as well as grants for 20% of equipment costs for R&D activities. The Act promoted development and innovation activities since 2012, and it was abolished in 2015 with the exact date of entry of the Investment Promotion Act (Official Gazette, No. 102/15, 25/18, 114/18) [16] into force.

B. Current fiscal framework

There are currently several laws and legal acts aimed at encouraging R&D&I in Croatia. The current Croatian legal framework for fostering R&D&I consists of direct measures in the form of tax incentives and indirect measures in the field of public procurement and small business. Fiscal laws and incentives currently in force which directly encourage R&D&I are the new Investment Promotion Act (Official Gazette, No. 102/15, 25/18, 114/18) [16] and the Act on State Aid for Research and Development Projects (Official Gazette, No. 64/18) [4], as shown in Table II. More specifically, Croatia's current fiscal framework provides profit tax base deduction within the Act on State Aid for Research and Development Projects (Official Gazette, No. 64/18) [4] and profit tax rate deduction within the Investment Promotion Act (Official Gazette, No. 102/15, 25/18, 114/18) [16].

CURRENT FISCAL FRAMEWORK FOR FOSTERING R&D	
Valid: 2015 to date	Valid: 2018 to date
Investment Promotion Act (Official Gazette, No. 102/15, 25/18, 114/18)	Act on State Aid for Research and Development Projects (Official Gazette, No. 64/18)
profit tax rate deduction	profit tax base deduction

Table II. Overview of current fiscal framework for fostering R&D&I in Croatia

The Investment Promotion Act (Official Gazette 138/06, 61/11) [17] was adopted in 2006, and in 2011 the terms "technology-innovation centers" or "technological development and innovation centers" have been replaced by the term "technological development and innovation activities", which provided further clarification and a wider range of incentives to invest. The new Investment Promotion Act (Official Gazette, No. 102/15, 25/18, 114/18) [16] included R&D&I activities as an investment incentive segment and an increase in the approved amount of grants for equipment costs for the technological R&D&I center (Table III). Within this Law, since 2015, a profit tax rate deduction was provided for micro entrepreneurs of up to 50% of regular tax rate for investments of minimum EUR 50.000 for the period of 3 years. For small, medium and large entrepreneurs and investments between EUR 150.000-1.000.000, the Act allows for a 50% tax rate deduction of the regular tax rate for the period of 10 years; for investments between EUR 1-3 million the Act provides a 75% deduction of the regular tax rate available for the period of 10 years, and for investments above EUR 3 million a 100% deduction of the regular tax rate is

available for the period of 10 years. Also, for R&D activities this Act provides a 20% grant for eligible R&D&I equipment expenditure that amounts no more than EUR 500.000. The Investment Promotion Act (Official Gazette, No. 102/15, 25/18, 114/18) [16] is still in force and has been fostering R&D&I in the aforementioned way since 2015.

Tax incentive	Level of investment	Profit tax rate deduction
Tax incentive for micro entrepreneurs	Minimum of EUR 50.000	50%
Tax incentive for small, medium and large entrepreneurs	EUR 150.000 - 1.000.000	50%
	EUR 1.000.000 - 3.000.000	75%
	More than EUR 3.000.000	100%
Tax incentive for R&D&I activities	20% grants for equipment for the maximum amount of EUR 500.000	/

Table III. Tax incentive within the Investment Promotion Act (Official Gazette, No. 102/15, 25/18, 114/18) since 2015

In 2018, the Act on State Aid for Research and Development Projects (Official Gazette, No. 64/18) [4] was adopted as the first Croatian law that is intended solely for fostering R&D&I. As well as other Acts within this framework, it is aimed primarily for the business sector and natural persons who have legal income (profit) tax liability. It provides a tax relief for costs within R&D&I projects as an additional deduction of income tax base. This tax relief encompasses 100% deduction of tax base of eligible costs for fundamental research, 50% for industrial research, 25% for experimental development and 50% for feasibility studies (Table IV), for a period of up to 3 years.

Research category	Deduction of profit tax base	Possible further deduction
Fundamental research	100%	/
Industrial research	50%	up to 80% for SME, efficient cooperation and dissemination
Experimental development	25%	up to 80% for SME, efficient cooperation and dissemination
Feasibility studies	50%	for 10-percentage points for medium enterprises and 20-percentage points for small enterprises

Table IV. Tax incentive within the Act on State Aid for Research and Development Projects (Official Gazette, No. 64/18), since 2018

This Act on State Aid for Research and Development Projects (Official Gazette, No. 64/18) [4] promotes different research categories for the first time ever since the abolishment of the Act on Scientific Activity and Higher Education in 2007 (Official Gazette, No. 123/03, 198/03, 105/04, 174/04, 46/07, 63/11, 94/13, 139/13, 131/17) [12] in 2014. It is in line with the Strategy for innovation encouragement of Croatia 2014 - 2020 and one of Croatia's most successful efforts for fostering R&D&I.

III. COMPARATIVE ANALYSIS OF FISCAL INCENTIVES FOR R&D&I IN CROATIA THROUGH DISTINCTIONS AND TIME CONTEXT

The comparison of Croatian former legal (fiscal) framework for fostering R&D&I through fiscal incentives with the current framework outlines the complexity of the Croatian fiscal framework for fostering R&D&I through fiscal incentives. This complexity derives, among other things, from several important and specific features and particularities. One of those particularities is that some of the aforementioned activities of fiscal incentives were quite different from one another, while others were almost identical. Some Acts have also been overlapping in time in fostering R&D&I, as shown in Fig. 1.

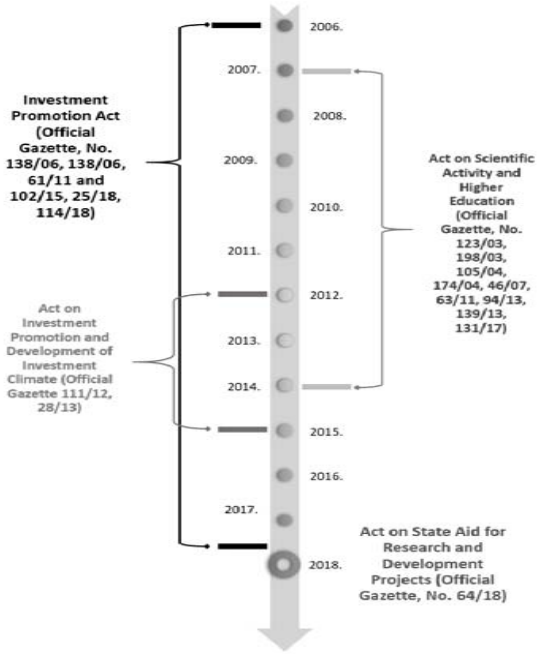


Figure 1. The overview of historical development of Croatia's fiscal framework for fostering R&D&I since 2006

There are two common features in all the laws of this framework (former and current). Firstly, the form of tax support that has been or is still provided in all legal acts in Croatia are tax reliefs in two main forms: (1) tax base deductions, and (2) tax rate deductions. Secondly,

the beneficiaries of tax reliefs under this legal framework in Croatia are all taxpayers that have a legal income (profit) tax liability that is regulated under the Profit Tax Law (Official Gazette, No. 127/00, 163/03, 177/04, 90/05, 57/06, 146/08, 80/10, 22/12, 148/13, 143/14, 50/16, 115/16, 106/18) [11]. These tax reliefs are aimed primarily for the business sector and natural persons who have legal income (profit) tax liability.

Not all laws encouraged the same research activities and categories. More specifically, R&D&I activities were categorized differently under different laws. R&D was first facilitated within the Profit Tax Law (Official Gazette 127/00, 163/03) [18]. Since the Profit Tax Law (Official Gazette 57/06) [19] abolished these incentives in 2006, in the same year the Investment Promotion Act (Official Gazette 138/06, 61/11) [17] introduced measures to encourage the establishment and the development of R&D&I centers until 2011, when it introduced measures for R&D&I activities, which has certainly expanded the range of activities that have so far been promoted. At the same time, while the Profit Tax Law (Official Gazette, No. 127/00, 163/03, 177/04, 90/05, 57/06, 146/08, 80/10, 22/12, 148/13, 143/14, 50/16, 115/16, 106/18) abolished the tax incentives, the Act on Scientific Activities and Higher Education (Official Gazette No. 123/03, 198/03, 105/14, 04, 46/07, 63/11, 94/13, 139/13, 131/17) [12] introduced measures to stimulate R&D until the end of 2014, due to the preparation for the new Act on State Aid for Research and Development Projects (Official Gazette, No. 64/18) [4]. The above measures of the Act on Scientific Activity and Higher Education (Official Gazette, No. 123/03, 198/03, 105/04, 174/04, 46/07, 63/11, 94/13, 139/13, 131/17) [12] from 2007, were the first time that the tax legislation defined various categories of research in a manner that has been largely maintained to date. Namely, the research categories under this Act have been defined as fundamental research, applied research, development research, studies on technical feasibility for the implementation of applied research and studies on technical feasibility for the implementation of development research. At the same time, the Act on Investment Promotion and Development of Investment Climate (Official Gazette, No. 111/12, 28/13) [13] was adopted in 2012 with measures aiming to encourage R&D&I activities that had been in place since 2012 by 2015. Namely, on the date of the entry into force of the new Investment Promotion Act (Official Gazette, No. 102/15, 25/18, 114/18) [16] and related measures to stimulate R&D&I activities, the 2015 Act on Investment Promotion and Development of Investment Climate (Official Gazette 111/12, 28/13) [13] ceased to be valid. The latest Act of the legislative framework for encouraging R&D&I is the Act on State Aid for Research and Development Projects (Official Gazette, No. 64/18) [14] issued in 2018. This Act on State Aid for Research and Development Projects (Official Gazette, No. 64/18) [14], for the first time since the expiration of the Act on Scientific Activity and Higher Education (Official Gazette, No. 123/03, 198/03, 105/04, 174/04, 46/07, 63/11, 94/13, 139/13, 131/17) [12] in 2014, defines somewhat different, but mostly the same categories of R&D. Those research categories are fundamental research, industrial research, experimental development and feasibility studies.

Furthermore, another particularity of the fiscal framework is that, except for the overlapping of laws in the time context, incentives of different Acts were identical. More specifically, measures to encourage the development and innovation activities of the Act on Investment Promotion and Development of Investment Climate (Official Gazette 111/12, 28/13) [13] that were in force in the period 2012-2015 are identical to the Investment Promotion Act (Official Gazette, No. 102/15, 25/18, 114/18) [16] that is in force since 2015 to date. In terms of the type and intensity of support, the difference between these two laws is in terms of terminology and language expression, while on the other hand, targeted or encouraged activities, investment levels, the reduction of the profit tax rate and the requirement to achieve the right to reduce the profit tax rate are identical. In other words, these development and innovation activities have been fostered in this way since 2012 to date.

Moreover, measures to encourage R&D of the Act on Scientific Activity and Higher Education (Official Gazette, No. 123/03, 198/03, 105/04, 174/04, 46/07, 63/11, 94/13, 139/13, 131/17) [12] and of the Act on State Aid for Research and Development Projects (Official Gazette, No. 64/18) [4] are also almost identical. Within these laws, the total amount of state aid for the amount of eligible project costs or the maximum intensity of support of the eligible project costs are almost identical. However, the difference between these two laws is in the previously mentioned defining of the variety of research categories. The Act on State Aid for Research and Development Projects (Official Gazette, No. 64/18) [4] encourages fundamental research, industrial (instead of applied research), experimental development (instead of development research) and only one category of feasibility study (instead of a study on technical feasibility for the implementation of applied research and a study on technical feasibility for implementation of developmental research). Encouraging R&D&I through the Act on Scientific Activity and Higher Education (Official Gazette, No. 123/03, 198/03, 105/04, 174/04, 46/07, 63/11, 94/13, 139/13, 131/17) [12] was in force for the period 2007-2014, after which there were no measures for fostering these categories of research since 2014 until the adoption of the Act on State Aid for Research and Development Projects (Official Gazette, No. 64/18) [4] at the end of 2018.

IV. CONCLUSION

Croatia has been fostering R&D&I through tax incentives for almost 20 years. In historical development of fiscal framework fostering R&D&I, numerous laws and legal acts have been in force, often overlapping in characteristics and in time. However, all the abolished as well as current laws and legal acts of this framework have been aimed at taxpayers of income (profit) tax, more specifically, at the business sector. The current fiscal framework for fostering R&D&I in Croatia has been in force since 2015, enveloping the Investment Promotion Act (Official Gazette 102/15, 25/18, 114/18) that provides profit tax rate deduction since 2015, and Croatia's latest Act on State Aid for Research and Development Projects (Official Gazette, No. 64/18) [4] that provides profit tax base deduction since 2018.

The most important benefits of the current fiscal framework for fostering R&D&I through fiscal incentives are a wider scope of research activities and categories that are being promoted, lower levels of investment that are eligible for the tax incentives, as well as the variety of tax reliefs provided, and even the larger amount of state aid that ultimately it provides. More specifically, taxpayers can choose between tax reliefs through tax rate deduction or tax base deduction. Moreover, the tax relief under the Act on State Aid for Research and Development Projects (Official Gazette, No. 64/18) [4] represents the deduction of tax base for R&D&I eligible expenditures which, in practice, can amount to more state aid and tax support than what can be provided through other types of tax reliefs. Furthermore, the latest Act on State Aid for Research and Development Projects (Official Gazette, No. 64/18) [4] promotes a variety of different research categories. It is in line with the Strategy for innovation encouragement of Croatia 2014 - 2020 and it represents one of Croatia's most specific and most successful efforts for fostering R&D&I.

There is currently no available data on the awarded tax incentives for 2017 and 2018, therefore an ex post evaluation of awarded tax incentives for R&D&I in 2017 and 2018 should be carried out once the data is available. Ex post evaluation should provide a way to determine the impact and effectiveness of the current legal framework for fostering R&D&I in Croatia in 2017 and 2018, especially with regard to the adoption of the new Act on State Aid for Research and Development Projects (Official Gazette, No. 64/18). Moreover, in order to assess and evaluate the final outcome and the impact of a certain state aid incentive, an ex post evaluation should be carried out after the implementation of a particular intervention. Ex post evaluation is used to estimate the effectiveness of the intervention and to determine whether it provides the same "value for money" as expected, or whether it needs to be changed or improved. Investments in R&D&I can yield visible results in the years after an intervention, after a minimum of 3 to 5 years, and some estimations state even more than 10 years after an intervention. Policy makers can apply evaluation at different levels, from micro to macro levels. Depending on the stage and type of instrument, as well as on specific environment conditions, policy makers apply different evaluation methods. Therefore, it is proposed to carry out an ex post evaluation of the current fiscal framework for fostering R&D&I in Croatia, more specifically tax reliefs within the Investment Promotion Act (Official Gazette 102/15, 25/18, 114/18) and the Act on State Aid for Research and Development Projects (Official Gazette, No. 64/18), when the data is available and after and more importantly, a minimum of 3 to 5 years, in order that the state aid and tax incentives can provide visible results.

Although ex post evaluation is going to be implemented in the upcoming years, Croatia is decidedly following the footsteps of the rest of the European Union and other more developed countries with the best practice in fostering R&D&I through fiscal incentives. Although it has yet to achieve significant results, the decisive intention of Croatia in fostering R&D&I and investment climate and therefore improving competitiveness, as well as collecting valuable feedback from the business sector, it is on the right track to improving its position on the global scoreboard.

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