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TAXATION IN SLOVENIA

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1 INTRODUCTION

This publication provides concise general information about the current Slovenian tax system with the most up-to-date information as of April 2006. Its purpose is to answer some of the questions relating to taxes and to help readers gain a better and more thorough understanding of the Slovenian tax system. As such, it deals mainly with a general overview and not with specifics.

The publication includes five sections: Section 2 contains a summary of all existing taxes with a detailed explanation in Section 3; Section 4 is devoted to Slovenian double taxation conventions; and Section 5 summarizes forthcoming tax system reforms.

At the end of the text there is an appendix describing the concept of special economic zones and the relevant tax treatment.

2 SUMMARY

The tax system consists of three main categories of taxes: i) direct taxes on income; ii) direct taxes on property; and iii) indirect taxes.

The Tax Administration of the Republic of Slovenia collects all taxes, except for customs duties, excise duties and value added tax on imports, which are collected by the Customs Administration of the Republic of Slovenia.

Corporate Income Tax

Corporate income tax is levied on the taxable profit of private companies at a rate of 25%, with a reduced rate, which must be not less than 10%, applying to corporations established in Special Economic Zones and a special rate of 0% applying to investment funds, pension funds and insurance undertakings for pension plans under certain conditions. Depreciation allowances are quite favourable on buildings (5%) and machinery and equipment (25%).

A general investment incentive is represented by a deduction from the tax base of 10% (20% in 2006 and 2007) of the amount invested in equipment, with the exception of cars and with the exception of furniture and office equipment, excluding computer equipment and in intangible long-term assets. An additional deduction of 20% of investments in research and development activities also applies. The amount of additional deduction can be increased to 30% or 40% depending on the regional relief scheme.

Dividends

A company paying dividends withholds tax at a rate of 25% on each distributed dividend to a resident and non-resident of Slovenia. If international treaties on the avoidance of double taxation stipulate a tax rate different from 25%, the tax rate from the treaty applies. No withholding tax is paid for dividends distributed to persons to whom a common system of taxation applicable in the case of parent companies and subsidiaries applies under certain conditions (at least 20% equity, with shares held for at least 24 months).

The Directive on a common system of taxation applicable in the case of parent companies and subsidiaries of different Member States has been implemented. A participation exemption of revenues from profit participation has been introduced under certain conditions.

Personal Income Tax

Personal income tax applies to an individual's income. There are six categories of income: income from employment, business income, income from agriculture, income from property (rental income, royalties, interest and dividends), capital gains and other income.

Dividends, interest and capital gains are taxed according to a flat rate. The tax rate for dividends is 20% and for interest income 15% (in 2006-2007 and 20% thereafter). The tax rate for capital gains depends on the holding period: 20% for a holding period of up to 5 years, 15% for a holding period from 5 to 10 years, 10% for a holding period from 10 to 15 years, 5% for a holding period from 15 to 20 years and 0% for a holding period greater than 20 years. This tax is treated as a final tax for residents and non-residents alike.

Income tax on other categories of income (income from employment, business income, income from agriculture, rental income, royalties and other income is hereinafter referred to as *active* income) is paid during the tax year in the form of advance tax payments. Advance tax payments are determined according to special tax rate schedules or fixed tax rates, as the case may be.

The annual *active income* tax liability of a resident is computed in such a manner that the taxable bases of different sources of income earned in a calendar year are computed separately and then aggregated. The annual taxable base is computed after compulsory social security contributions and certain allowances are deducted. Net active income is taxed according to a progressive tax rate. There are five tax brackets in the annual tax schedule for active income. The progressive tax rates are: 16%, 33%, 37%, 41% and 50%. Advance tax payments paid during the tax period are deductible from the final tax liability and any difference is collected on receipt of an assessment from the tax authorities. When the total sum of advance payments exceeds the tax payable, a refund is provided.

Payroll Tax

The payroll tax is levied on gross salary or wage payments of employees who are obliged to pay social security contributions under a special law. It is levied at progressive rates. The rates are (in 2006) 0%, 3%, 6.3% and 11.8%; (in 2007) 0%, 2.3%, 4.7% and 8.9%; and (in 2008) 0% 1.1%, 2.3% and 4.4%. This tax will be completely phased out on 1 January 2009.

Companies employing disabled individuals representing at least 40% of the total workforce during the entire business year, as well as diplomatic missions and consular posts in Slovenia, are exempted from paying this tax.

Contractual Work Tax

This tax is levied on gross payments made to individuals performing temporary contractual work at a rate of 25%. Payments for certain types of contractual work are exempted.

Social Security Contributions

Besides personal income tax, individuals must pay compulsory social contributions. Both employer and employee must pay contributions, with the contributions withheld by the employer. Self-employed persons must pay income tax and social security contributions on their own. There are four types of contributions paid to two social security schemes and to the state budget as follows:

- for pension and disability insurance, paid to the Pension Fund;
- for medical care and sickness leave, paid to the Health Fund;
- for unemployment insurance, paid to the state budget; and
- for maternity leave, paid to the state budget.

Taxes on Lottery Winnings

This tax is levied on individuals who win lottery prizes. The tax is withheld by the lottery organizer at a rate of 15%.

Tax on Gambling

This tax is levied on the net income of the organizer of gambling activities. Two tax rates on gambling of 5% and 18% apply, depending on the type of game.

Inheritance and Gift Tax

This tax is paid by the recipient. It is levied on inherited property or gifts at market value. Progressive tax rates apply which depend on the relationship with the testametary in the case of inheritance and with the donor in the case of gifts. Relationships are classified into four categories. An exemption applies to direct descendants and spouses, to farmers on land, and to other special groups.

Property Tax

Property tax is a tax on buildings, summerhouses and boats. The tax is levied at different rates depending on the type and value of the premises or the length of the boat. Exemptions apply to certain types of buildings: buildings used for agricultural and business purposes, cultural or historical monuments and small craft.

Circulation Tax

Circulation tax is defined as annual duty for the use of the entire public road network and is imposed on vehicles registered in Slovenia. The rates are set according to a scale of nine categories of vehicles, and the outstanding amount is calculated in proportion to the duration of the registration period.

Value Added Tax

Value added tax (VAT) is a general consumption tax on a net basis included in the price consumers pay for goods and services. Consumers pay this tax indirectly, and a taxable company or person engaging in commercial activity must remit the tax to the Tax Administration Office. All companies pay VAT except those carrying out certain defined activities, small businesses and farmers with a turnover and income below defined thresholds and in dealing with products intended for export and international transport. There are two VAT rates:

- a standard rate of 20%; and
- a reduced rate of 8.5%.

Excise Duties

Excise duties are levied on alcohol and alcoholic beverages, oil, gas and tobacco products. Those liable to pay excise duties are manufacturers, importers of such products and persons to whom the liability may be transferred. Products intended for export are exempted.

Tax on Insurance Premiums

This tax is levied on insurance premiums and paid by insurance companies. The tax rate is 6.5%.

Immovable Property Transfer Tax

Tax is levied on the amount of the transaction at a rate of 2%, if VAT on the transaction has not been levied. Tax is payable by the seller unless agreed otherwise. There are exemptions for certain types of immovable property.

Customs Duties

Customs duties are levied on goods upon importation into the Community customs territory from third countries not belonging to that territory. The rates of duties are laid down in the Common Customs Tariff of the Community and are applied in accordance with the common customs legislation of the EU.

3 THE TAX SYSTEM

3.1 DIRECT TAXES ON INCOME

3.1.1 Corporate Income Tax

All legal persons carrying out commercial activities and having their head offices in Slovenia or having their place of effective management in Slovenia (partnerships and other corporate forms, investment funds, banks, insurance companies, co-operative enterprises, public enterprises and other legal persons) are subject to corporate income tax. Non-residents (legal persons who do not have their headquarters in Slovenia or their place of effective management in Slovenia) are subject to corporate income tax to the extent that the income has its source in Slovenia.

There are a limited number of legal persons who are exempt from corporate tax for non-profit activities, for example: institutes, societies, foundations, religious communities, political parties, chambers or representative trade unions.

The general corporate profits tax rate is 25%, although a reduced tax rate, which must not be less than 10%, applies under certain conditions to companies performing business activities in Special Economic Zones. There is also a special rate of 0% which applies to investment funds, pension funds and insurance undertakings for pension plans under certain conditions.

The taxable base is profit determined as a surplus of revenues over expenses recognized in the income statement according to accounting standards unless otherwise stipulated by the Corporate Income Tax Act. Taxable income includes revenues, which are determined according to accounting standards. This generally includes all income received and capital gains realized. Recognized expenses according to the Corporate Income Tax Act are those expenses required to acquire taxable revenue. Expenses that are not required to acquire revenue are expenses for which it follows that: they are not a direct condition for performing activities and are not a consequence of performing activities; they are of a private nature; and they do not conform to normal business practice. Non-recognized expenses are, inter alia: costs relating to private activity; distribution of profits, in particular for dividends; expenses to cover losses from previous years; provisions to cover potential losses; taxes; interest paid on loans received from persons whose principal office or place of residence is in a country with a more favourable tax environment; bribes, donations and investments.

Adjustments or limitations imposed on recognized expenses:

- representation costs and supervisory board costs are limited to 50% of their total amount;
- reimbursement for annual leave, long-service bonuses, severance pay at retirement, solidarity aid, reimbursement of work-related expenses such as the cost of meals during work and for transport to and from work, field allowances, separate living allowances and reimbursement of expenses for work-related travel (per diem allowances, reimbursement of transport costs, reimbursement of accommodation costs) are recognized as expenses up to the amount determined by the Government of the Republic of Slovenia in accordance with the Personal Income Tax Act;
- the write-off of a receivable is recognized as an expense when the write-off of the receivable is recorded in the business accounts under following two conditions: the amount of the receivable was already included in revenues, and all due diligence

- actions that would have been taken under prudent business practice have been taken to secure payment of the debt;
- an instrument of "thin capitalization" has been introduced. Non-recognized expenses are interest paid on loans (except for banks and insurance companies) received from a corporate partner who has, at any time during the tax period, owned (directly or indirectly) the share of this partner in the share capital of the taxpayer.

In the determination of the taxable base and recognition of revenues and expenses, the creation of provisions is not taken into account. But special provisions that banks must create in accordance with act regulating banks and technical insurance reserves that insurance undertakings must create in accordance with the act regulating insurance are recognized as applicable.

The depreciation allowance on buildings and equipment is quite favourable. Depreciation and amortization may not exceed the level arrived at using straight-line depreciation and the maximum annual depreciation rates shown in Table 1.

Table 1: Depreciation allowances

Depreciation category	Maximum annual depreciation rates (%)
1. Building projects	5
2. Equipment, vehicles and machinery	25
3. Passenger cars	12.5
4. Computers and computer equipment	50
5. Long-term plantations	10
6. Breeding and working herds	20
7. Other investments	10
8. Goodwill	10

The taxpayer may choose the method of valuing inventories, but may not change the chosen method for at least five years.

Loss is calculated as the surplus of expenses over revenues defined by the Corporate Income Tax Act. Losses may be offset against taxable profits in the following seven years. The carry back of losses is not permitted.

Capital gains from regular income are subject to tax.

The Directive on the common system of taxation applicable to mergers, divisions, transfers of assets and exchanges of shares concerning companies of different Member States has been implemented.

A general investment incentive is represented by a deduction from the tax base of 10% (20% in 2006 and 2007) of the amount invested in equipment, with the exception of cars and with the exception of furniture and office equipment excluding computer equipment and in intangible long-term assets. An additional deduction of 20% of investments in research and development activities also applies. The amount of the additional deduction may be increased to 30% or 40% depending on the regional relief scheme.

There are further general tax incentives under certain conditions for entities that provide work for trainees or previously unemployed persons (in the amount of 30% of the salaries of such

employees, but for no longer than the first 12 months of their employment), for those employing persons who hold Ph.D. degrees (in the amount of 30% of the salaries of such persons, but for no longer than the first 12 months of the person's employment) and for those employing disabled people (in the amount of 50% to 70% of the salaries of such persons, depending on the percentage of physical disability, and in amount of 70% of the salaries of such persons above the prescribed quota under the act regulating the vocational rehabilitation and employment of disabled persons). Relieves listed in the previous sentence are mutually exclusive. The cumulative total of allowances may not exceed the amount of the taxable base.

There are further relieves for donations. A taxpayer may claim a reduction in the taxable base for amounts paid in cash and in kind for humanitarian, disabled, charitable, scientific, educational, ecological and religious purposes, but only for payments made to residents of Slovenia who are established under special regulations for performance of such activities and up to an amount equivalent to 0.3% of the taxpayer's taxable revenue in the current tax period. A taxpayer may also claim a reduction in the taxable base for amounts paid in cash and in kind to political parties and representative trade unions up to an amount equivalent to three times the average monthly salary per employee of the taxpayer in the current tax period. The cumulative total of allowances may not exceed the amount of the taxable base.

Relief for voluntary supplementary pension insurance up to 24% of the compulsory contributions for pension and disability insurance for an insured employee, but no more than 549,000 tolar annually per employee, may apply under certain conditions.

Business organizations established in Special Economic Zones are entitled to additional tax incentives including a lower corporate income tax rate (not less than 10%), a tax concession on investment in assets situated in an economic zone not exceeding 50% and a reduction of the tax basis not exceeding 50% of the salaries paid out to new employees (see details in section on Special Economic Zones).

Corporate income tax is payable for the tax period, which is the calendar year; however, corporate taxpayers may specify a tax period to be the same as its business year when it differs from the calendar year and wherein the tax period may not exceed a period of 12 months. In that case the taxpayer must notify the tax authority of its choice. The taxpayer may not change the tax period for seven years.

Tax payments must be made in advance (monthly or quarterly) in proportion to the level of the taxable base in the latest assessment. The tax liability may be determined on the basis of group taxation, where the profits and losses from individual tax returns are summed. Two taxpayers form a group if they are both residents of Slovenia and all holdings in the equity of one belong directly to the other taxpayer. There are also other conditions for group tax treatment. In the case of non-resident taxpayers no group tax treatment is possible. Tax returns must be submitted to the tax authorities by 31 March of the current calendar year for the preceding calendar year, and joint tax returns must be filled by 30 April if the tax period is the same as calendar year. Tax returns must be submitted to the tax authorities within 3 months of the current business year for the preceding business year, and joint tax returns must be filled within 4 months of the current business year for the preceding business year if the tax period is the same as business year.

The Bank of Slovenia does not assess and pay corporate tax.

3.1.1.1 Dividends

Companies paying dividends withhold tax at a rate of 25% on each distributed dividend to residents and non-residents of Slovenia. If international treaties on the avoidance of double taxation stipulate a tax rate different from 25%, the tax rate from the treaty applies. There is no withholding tax if a resident taxpayer notifies the payer of its tax number and if the non-resident taxpayer for activities in a business unit in Slovenia notifies the payer of its tax number. No tax is withheld for payments of dividends and income similar to dividends distributed to persons to whom a common system of taxation, applicable in the case of parent companies and subsidiaries, applies under certain conditions (at least 20% equity, and shares held for at least 24 months). The Directive on a common system of taxation applicable in the case of parent companies and subsidiaries of different Member States has been implemented.

A participation exemption of revenues from profit participation has been introduced. Taxpayers who are recipients of dividends or other shares in profit may exempt such dividends or other shares in profit from the taxable base, provided:

1. the recipient participates in the equity capital or in the management of the person distributing profits (the payer) such that the recipient holds a participating interest, shares or voting rights in the amount of at least 20%; and
2. the duration of the participation in the equity capital or management of the payer is at least 24 months; and
3. the payer is a taxpayer and not a resident of a country, or in the case of a business unit is not situated in a country, with a more favourable tax environment (an average, nominal level of tax on corporate profits less than 12.5%). This is deemed to have been fulfilled if the payer:
 - is a person that has one of the forms to which the common system of taxation applying to parent companies and subsidiaries from different EU Member States applies; and
 - is a resident of an EU Member State for tax purposes in accordance with the law of such Member State and is not deemed to be a resident outside the EU in accordance with an international treaty on the avoidance of double taxation concluded with a non-Member State; and
 - is a taxpayer subject to one of the taxes in connection with which the common system of taxation applying to parent companies and subsidiaries from different EU Member States applies.

The aforementioned provisions also apply to a non-resident recipient if the recipient's participation in the equity capital or management of the person distributing profits is connected with business activities performed by the non-resident in or through a permanent establishment in Slovenia.

3.1.1.2 Interest and Royalties

Withholding tax at a rate of 25% applies on interest, with the exception of interest: on loans raised by Slovenia and securities issued by Slovenia; loans raised by and debt instruments issued by authorized institutions in accordance with the act regulating the insurance and financing of international commercial transactions for which surety is provided by Slovenia under the aforementioned act; and inter-bank loans.

Withholding tax at a rate of 25% applies on royalties. There is no withholding tax if a resident taxpayer notifies the payer of its tax number and if a non-resident taxpayer for activities in a business unit in Slovenia notifies the payer of its tax number.

The Directive on the common system of taxation applicable to interest and royalty payments made between associated companies of different Member States has been implemented.

No withholding tax is paid for interest payments and royalties payments, if at the time of payment:

- the payer and the eligible owner are linked such that:
 - the payer directly holds a share of at least 25% in the eligible owner's equity capital, or
 - the eligible owner directly holds a share of at least 25% in the payer's equity capital;
 - the same company directly holds a share of at least 25% in the equity capital of both the payer and the eligible owner;
- the minimum share is held for at least 24 months; and
- the payer or eligible owner:
 - is a company that has one of the forms to which the common system of taxation in connection with interest payments and payments for the use of property rights applying to linked companies from different EU Member States applies;
 - is a resident of an EU Member State for tax purposes in accordance with the law of that country; and
 - is a taxpayer subject to one of the taxes in connection with which the common system of taxation in connection with interest payments and payments for the use of property rights applying to linked companies from different EU Member States applies.

Eligibility under the aforementioned provisions is recognized on the basis of permission in advance from the tax authority if the conditions from those provisions are fulfilled.

3.1.2 Personal Income Tax

Personal income tax is levied on six categories of income: income from employment, business income, income from agriculture, income from property (rental income, royalties, interest and dividends), capital gains and other income accruing to persons liable to tax in the Republic of Slovenia.

Residents are liable to income tax on their worldwide income (i.e. income derived in Slovenia as well as abroad). Non-residents are liable to income tax on income derived in Slovenia.

An individual, regardless of his nationality, is a resident in Slovenia for personal income tax purposes if he has a formal residential tie with Slovenia (i.e. has permanent residence in Slovenia, is a Slovenian public employee employed abroad or was a Slovenian resident but is currently employed in an EU institution) or actual residential tie with Slovenia (has a habitual abode or centre of personal and economic interests or is present more than 183 days in a taxable year in Slovenia).

Each individual is treated as a separate taxpayer. There is no taxation of spouses or a family as a whole. The tax year is the calendar year.

Income tax on interest, dividends and capital gains is paid according to a flat income tax rate. Any such tax payment is treated as a final tax for residents and non-residents alike. Tax rates are the following:

- Interest: 15% in 2006 and 2007 and 20% thereafter;
- Dividends: 20%;
- Capital gains: 20% for a holding period of up to 5 years, 15% for a holding period from 5 to 10 years, 10% for a holding period from 10 to 15 years, 5%

for a holding period from 15 to 20 years and 0% for a holding period greater than 20 years.

Income tax on other categories of income (income from employment, business income, income from agriculture, rental income, royalties and other income are hereinafter referred to as *active income*) is paid during the tax year in the form of advance tax payments. The rate for advance tax payment is prescribed by the Personal Income Tax Act. Any such advance tax payment of a non-resident is treated as a final tax, whilst in the case of a resident it is treated as a prepayment of tax.

When the payer of income is a domestic legal person, body of persons without legal personality, an individual who operates a business or a permanent establishment of a non-resident, the payer is bound to calculate and pay withholding tax for the taxpayer. Tax payments in all other cases (i.e. when there is no payer of income) are to be made by the taxpayer in due time, as determined by Tax Procedure Act.

The annual *active income* tax liability of a resident is computed in such a manner that the taxable bases of different sources of income earned in a calendar year are computed separately and then aggregated. The annual taxable base is computed after compulsory social security contributions and certain allowances are deducted. The net amount is taxed at progressive rates. The annual tax rate schedule is fixed and applies for the following year. It is adjusted on a yearly basis according to the consumer price growth factor in Slovenia. This enables the taxpayer to determine his *active income* tax liability already during the tax year.

Table 2: The tax schedule for the year 2006

Taxable base			in tolar
Over	To	Tax rate	
	1,327,300	16%	
1,327,300	2,593,340	33%	212,368
2,593,340	5,247,940	37%	630,161
5,247,940	10,546,930	41%	1,612,363
10,546,930		50%	3,784,949

Advance tax payments are deductible from the annual *active income* tax liability of a resident and any difference is collected on receipt of an assessment from the tax authorities.

Residents of Slovenia are obliged to submit an annual tax return for *active income* in the prescribed form to the tax authorities, except for the following individuals:

- taxpayers whose annual taxable base does not exceed the amount of the general allowance (604,330 tolar in 2006); and
- taxpayers whose only source of income is a pension, if during the year they did not pay advance tax and claim an allowance for dependent family members.

The annual tax return for *active income* must be completed, signed by the taxpayer and sent to the local tax administration office by 31 March of the following year. In the return, the taxpayer must provide information on amounts of income, withholding taxes and contributions, exclusions, deductions, allowances and credits. The tax liability of the taxpayer is calculated by the tax administration. The tax administration is obliged to assess the tax and issue a written order before 31 October of the same year. The tax due (the difference between the total tax payable and the total amount of tax paid in advance) must be paid

within 30 days of the day the written order is submitted. When the total sum of advance payments exceeds the annual tax payable, a refund is provided within the same time limit.

Taxpayers who are liable to tax on business income are obliged to submit their returns for tax on business income to the local tax administration office by 31 March of the following year.

All taxpayers (except for basic agricultural and forestry activity) must keep records of their income. They are obliged to keep records for at least five years from the year they relate to.

To avoid double taxation of income, Slovenia has concluded a considerable number of double taxation conventions (see section 4).

3.1.2.1 Taxable income

According to the Personal Income Tax Act, income is classified into six categories. The first category includes income from employment, the second business income, the third income from agriculture, the fourth income from property, the fifth capital gains and the last other income. The taxable income for each category of income is clearly defined by the Personal Income Tax Act.

The first category of income includes income from employment (i.e. salaries or wages, including fringe benefits (compensation for work-related expenses are exempt from the tax base up to a certain level, as determined by government regulations), pensions, income earned under contract for temporary work or for the execution of services and jobs on any other basis and other income from dependent activities, including services and the jobs of directors, procurators and other nominated, appointed or elected persons).

In principle all fringe benefits given by employers or other persons to their employees or family members of employees in connection with employment, such as the private use of company cars, rental benefits, zero-interest loans, discounts on products and services, gifts and share options are taxed.

The second category, business income, refers to income derived by an individual who independently performs an activity such as entrepreneurship, agricultural or forestry activity and connected activities, professional activities or other independent activities. The profit is determined by deducting expenditures from income for a given calendar year.

The third category of income covers income from agriculture. The tax applies to income from basic agricultural or forestry activity, which is determined according to presumptive cadastral income. Individuals who are subject to tax are those who have the right to use farmland or woodland. This includes owners of land, holders of the rights to use land, or the beneficial owners of plots of land. Subventions are treated as taxable income.

The fourth category, income from property, refers to rental income, royalties, interest and dividends. Relevant act defines the taxable base for each type of income from property.

The taxable base for rental income is in general reduced by the actual or standard expenses incurred. Allowable deductions from income derived from renting are maintenance expenses (i.e. expenses incurred for keeping a property in good operating condition). Standard expenses may be claimed as a deduction in the amount of 40% of the rental income (except in the case of renting farmland or woodland).

The taxable base for royalties (i.e. income from the transfer of property rights – copyrights, inventions, trademarks and technical innovations, plans, formulas, procedures and similar rights or similar property and information regarding industrial, commercial or scientific

experience, regardless of whether they are protected by relevant legislation, personal name or image) is income received, in general reduced by a standard deduction in the amount of 10% of the income.

The taxable base for interest (i.e. interest on loans, debt securities, bank deposits and other similar financial claims, financial leasing, life insurance and interest income derived from mutual funds, etc.) is equal to the interest derived. The tax rate on the interest is 15% in 2006 and 2007, and 20% thereafter. This tax is a final tax.

There is a tax-exempt amount of interest on bank deposits with Slovenian or other EU banks during a transitional period (300,000 tolar in 2006 and 150,000 tolar in 2007). There is no advance tax payment on such interest received by residents during the tax year. Instead, residents are obliged to submit a special annual tax return for such interest to the local tax administration office by 28 February of the following year, except when the amount of such interest does not exceed the tax-exempt amount of such interest.

The taxable base for dividends (i.e. any income derived on the basis of shares owned in a company, co-operative or other organizational form, including income of silent partners and income from other ownership investments in any type of organization with a predominantly equity nature) is income received. The tax rate on dividends is 20%. This tax is a final tax.

The fifth category, capital gains, includes income derived from the disposal of real estate, equity securities and other shares in companies, co-operatives or other organizational forms. The taxable base is the difference between the value of capital upon disposal and the valorised acquisition value of the capital, taking into account certain expenses incurred upon acquisition or disposal of the capital. The tax rate for capital gains depends on the holding period: 20% for a holding period of up to 5 years, 15% for a holding period from 5 to 10 years, 10% for a holding period from 10 to 15 years, 5% for a holding period from 15 to 20 years and 0% for a holding period greater than 20 years. This tax is a final tax.

The sixth category, other income, includes income not included in the first five categories of income (i.e. prizes, gifts, contest prizes, certain scholarships, etc.). The taxable base for other income is income received.

3.1.2.2 Exemptions

There are a number of exemptions within each category of income which are defined by the Personal Income Tax Act.

3.1.2.3 Allowances and deductions

Allowances and deductions that reduce the aggregated taxable base for a resident taxpayer on an annual level include:

General allowance: 604,330 tolar (in 2006) for all taxpayers.

Personal allowances:

- Disabled person's allowance: 3,513,772 tolar (in 2006) if the taxpayer is a disabled person.
- Seniority allowance: 281,081 tolar (in 2006) if the taxpayer is above 65 years of age
- Pensioner's allowance: 14.5% of a determined pension received on the basis of compulsory pension and disability insurance.
- Working disabled person's allowance: 14.5% of determined compensation received on the basis of compulsory disability insurance.
- Receivers of a state "cultural" grants allowance: 14.5% of the determined state grant received on the basis of the Act on pursuance of public interest in the areas of culture

- Special personal allowances:
 - o Student allowance: 1,225,200 tolar (in 2006) for income earned by pupils or students for temporary work done on the basis of a referral issued by a special organization dealing with job-matching services for pupils and students, but only if the student's annual taxable income does not exceed 1,600,000 tolar;
 - o Allowance for self-employed persons in areas of culture and self-employed journalists: 15% of business revenues, up to 6 mio of business revenues.
- Family allowances: granted to taxpayers who are supporting their family members, as follows (in 2006):
 - o 484,873 tolar for the first dependent child whilst for each subsequent dependent child this amount is increased (i.e. by 42,167 tolar for the second child, by 217,881 tolar for the third child, by 393,596 tolar for the fourth child, by 569,310 tolar for the sixth child and by 175,612 tolar for any subsequent child);
 - o 1,756,937 tolar for a dependent child who requires special care;
 - o 484,873 tolar for any other dependent family member.
- Special deduction for voluntary additional pension insurance payments:
 - o premiums paid by a taxpayer to the provider of a pension plan based in Slovenia or in a European Union Member State according to a pension plan that is approved and entered into a special register but limited to a sum equal to 24% of the compulsory contribution for compulsory pension and disability insurance for the taxpayer, or 5.844% of the taxpayer's pension, and no more than 560,937 (in 2006) tolar annually;
 - o premiums paid by a professional sportsperson to the provider of a pension plan based in Slovenia or in a European Union Member State according to a pension plan that is approved and entered into a special register, but limited to a sum equal to 100% of the compulsory contribution for compulsory pension and disability insurance for the sportsperson and no more than 50% of the annual revenues of the sportsperson.
- Special deduction for various purposes:
 - o amounts invested in certain securities issued by the Republic of Slovenia; premiums paid by a taxpayer for voluntary supplementary health insurance to a legal person based in Slovenia pursuant to the regulations that govern voluntary health insurance and amounts paid for medicinal products, medical and orthopaedic accessories; voluntary monetary contributions paid and the value of gifts-in-kind for humanitarian, charitable, cultural, educational, scientific, sport, ecological and religious purposes when paid to certain persons and stated contributions and gifts paid to disability organizations; amounts paid for maintenance of the taxpayer's primary residence; amounts paid for the purchase of works of art, literary works or audio-video carriers; tuition fees and amounts paid for the purchase of educational books; amounts paid for an Internet connection; membership fees paid to political parties and unions; etc.: up to 2% of the taxpayer's annual taxable base;
 - o amounts of paid self-imposed contributions introduced pursuant to the regulations on self-imposed contributions: amounts paid;
 - o amounts paid for the purchase or construction of a primary residence: up to 4% of the taxpayer's annual taxable base.

An individual who is a resident of another EU Member State and derives income in Slovenia from employment, business income or income from agriculture that is taxable in Slovenia, may claim a general allowance, seniority allowance and family allowance if the individual can attest that the above-stated income derived in Slovenia amounts to at least 90% of his entire

taxable income for the tax year. A non-resident claiming such allowances is obliged to file the same annual *active income* tax return that applies to residents.

3.1.3 Payroll Tax

Payroll tax is levied on employers who are obliged to pay social security contributions, usually those employing people on a permanent basis. The tax is applied to each gross wage or salary on a progressive basis (i.e. at progressive rates). This tax will gradually be reduced and completely phased out on 1 January 2009.

Exemptions to this tax refer to those companies employing disabled people accounting for at least 40% of the total number of employees and to diplomatic missions and consular posts in Slovenia.

Taxpayers are obliged to pay the tax within six days of the payment of wages or salaries.

Table 3: Payroll tax rates are levied as follows

Taxable base		2006	2007	2008
More than (in tolar)	Up to (in tolar)	Tax rates		
	165,000	0%	0%	0%
165,000	400,000	3.0%	2.3%	1.1%
400,000	750,000	6.3%	4.7%	2.3%
750,000		11.8%	8.9%	4.4%

3.1.4 Contractual Work Tax

The contractual work tax applies to all registered legal persons and individuals who perform a business activity and employ other persons under contract for temporary work. The tax is levied on each gross payment to individuals made according to the contract for temporary work. The taxable base also includes all refunds of expenses in connection with services performed.

The tax rate is 25%.

There are a number of exemptions from the contractual work tax. These include:

- payments for temporary services performed by students or pupils;
- payments for services performed for the help and care of disabled people; payments for certain defined services performed periodically in the area of agriculture;
- payments for the use of copyrights made under a copyright contract.

Taxpayers are obliged to pay the tax within three days of receiving payments.

3.1.5 Social Security Contributions

Both employers and employees pay compulsory social security contributions. Employers deduct these contributions from wages or salaries and pay them together with their contribution every month as part of payroll accounting. Self-employed individuals are obliged to remit social security contributions on their own.

Compulsory social security schemes apply to the whole population. There are four social security schemes:

- i pension and disability insurance;
- ii health insurance;
- iii unemployment; and
- iv maternity leave.

Contributions for pensions are paid to the Pension Fund, for health insurance to the health fund and, for unemployment and maternity leave directly to the central government.

The taxable base for both the employer and the employee is the amount of the gross wage, which includes gross leave pay, fringe benefits and remuneration of expenses related to work above a certain threshold.

There are four rates of contributions that apply to employers and employees for the four social security schemes (Table 4).

Table 4: Social security contribution rates

Fund	Employee (%)	Employer (%)
Pension insurance	15.50	8.85
Health insurance	6.36	7.09
Unemployment	0.14	0.06
Maternity leave	0.10	0.10
Total	22.10	16.10

3.1.6 Tax on Lottery Winnings

This tax applies to the value of lottery prizes and must be paid by individuals who win lottery prizes. The tax due is withheld by the organizer of the lottery. The tax rate is 15%.

3.1.7 Tax on Gambling

In Slovenia a concession must be paid on the organization of gambling activities, and in addition two tax rates apply to gambling activities. The organizer of the gambling activities pays both the concession and the tax. A special permit from the Ministry of Finance is required in order to organize such activities.

The tax on gambling is paid on the difference between income received for participation and the value of prizes awarded.

The two rates on gambling are 5% and 18% and are applied depending on the type of game. The 5% tax rate is applied for classic games such as lotteries, bingo, lotto, sports and betting.

The 18% tax rate applies for special games such as chemin de fer, poker, roulette, black jack and games played on gambling machines.

The taxable period is the calendar month. The taxpayer must submit a tax return to the tax authority and pay the tax within five days of the month for which the tax return was submitted. The final assessment should be submitted for the previous year by 20 March.

3.2 DIRECT TAXES ON PROPERTY

3.2.1 Inheritance and Gift Tax

Inheritance and gift tax applies to transfers of property. The tax is paid by an individual who is the testamentary heir or the heir by law for inheritance tax purposes and the recipient for gift tax purposes.

Taxpayers are divided into four categories according to their relationship with the deceased or donor as follows:

- Class I: all direct descendants and spouses;
- Class II: parents, siblings and their descendants;
- Class III: grandparents; and
- Class IV: others.

The tax on inherited property is charged on its transfer value after the deduction of debts and other liabilities. In the case of a gift, the tax applies to its transfer value after the deduction of any debt or liability for which the recipient is liable.

There are certain exemptions to the inheritance and gift tax. These include: individuals classified under Class I; taxpayers who inherit a house or apartment and who own only one house or apartment themselves and have lived in the same house as the decedent; and farmers who inherit land.

The tax is levied progressively depending on the value of the property and the category under which the relation to the deceased or donor is classified. Table 5 presents the tax rates.

Table 5: Inheritance and gift tax rates

Tax rate ranges	
Class II	5% to 14%
Class III	8% to 17%
Class IV	11% to 30%

Taxpayers must declare their liability to the local tax authority within 15 days of receiving a gift. The assessment of inheritance tax is made according to the inheritance decision sent by the court to the tax authority. The assessment of the tax on inheritance and gifts by the tax authorities must include details of the taxable base and the rate and amount of the tax. The tax is payable within 30 days of the assessment being issued.

3.2.2 Property Tax

Property tax is levied on premises such as buildings and parts of buildings including apartments, garages and second homes and boats that are not used for business purposes.

The taxpayer is an individual who is the actual or beneficial owner of the premises or the owner of a boat used for recreational purposes.

The taxable base for premises is the value ascertained according to special criteria issued by the Government. In the case of boats, the taxable base depends upon the length.

The tax rate for premises depends of the type of property and the value. The tax rate for dwellings varies from 0.10% to 1% of the value. The tax rates on premises used for rest and recreation are in the range of 0.20% to 1.50%. The tax rate for business premises varies from 0.15% to 1.25%. For business premises that are not used for attendant activities or are not rented, the tax rate is increased by 50%.

Boats with a length of eight to nine meters are subject to an annual lump-sum tax of 29,865 Slovenian tolar (EUR 125). For each additional meter, the lump-sum amount is increased by 11,689 Slovenian tolar (EUR 49).

There are certain exemptions to the property tax, including the following:

- buildings of less than 160 square meters;
- buildings used for agricultural purposes;
- business premises used by the owner or user for business activity;
- cultural or historical monuments; and
- boats less than eight meters in length.

In addition there is a temporary exemption for ten years to taxpayers who own a newly constructed building or repaired or renovated buildings if the value of these buildings has increased as a result of renovation by more than 50%.

For a taxpayer with more than 3 family members who live in the owner's house, the tax decreases by 10% for the fourth and every additional family member.

3.2.3 Circulation Tax

Circulation tax is paid for the use of public roads by vehicle owners. The tax rate depends on the type of vehicle, as classified in the following groups:

- Motorcycles (related to engine capacity);
- Passenger motor vehicles and caravans (related to engine capacity);
- Combined motor vehicles (per vehicle);
- Special passenger motor vehicles (per vehicle);
- Buses (per passenger seat);
- Trailers for personal motor vehicles (related to limited gross laden weight);
- Trailers for buses (related to limited gross laden weight);
- Trucks and special trucks for specific cargo (related to maximum permissible gross laden weight);
- Articulated trucks (related to total maximum permissible gross laden weight);
- Trailers for trucks and special trailers for specific cargo (related to maximum permissible gross laden weight);
- Plant and machinery vehicles (per vehicle);
- Trailers for plant and machinery vehicles (per vehicle).

Exempted from paying circulation tax are vehicles exclusively using electricity for power, fire-fighting vehicles, ambulances, motor vehicles and trailers registered to the Ministry of Internal Affairs and the Ministry of Defence, motor vehicles and trailers registered for diplomatic-consular missions, and vehicles owned by particular international organizations.

3.3 INDIRECT TAXES

3.3.1 Value Added Tax

General

VAT is payable on all supplies of goods and services, effected by a taxable person, acting as such, for consideration within the territory of Slovenia, on intra-Community acquisition, including intra-Community acquisition of new means of transport and on importation of goods. It is also imposed on the transfer of ownership of buildings or parts thereof, if the transfer is made before first occupation or within a period of two years after first occupation.

The Value Added Tax Act entered into force in July 1999 and its amendments in April 2001, October 2002 and May 2004, when Slovenia became a member of the European Union and all provisions concerning intra-Community trade were enacted.

Taxable persons

Taxable persons are all persons performing independent economic activity. Such persons must register as taxable persons identified for VAT purposes if their annual turnover is greater than SIT 5 million or even if their turnover is lower, if they so wish. Taxable persons established abroad who perform taxable economic activity in Slovenia must also register with the tax authority.

A taxable person must apply for registration as a taxable person if the value of its supplies within the period of the last 12 months exceeds the threshold of SIT 5,000,000 (approximately EUR 22,000). There is another threshold for registration in the VAT system for agricultural activities of SIT 1,500,000 (approximately EUR 6,500) in accordance with the cadastral income of agricultural and forestry land.

Small businesses (including farmers) may apply for voluntary registration, which should be valid for at least a five-year period.

VAT is charged when goods are delivered or when services are performed. It is considered that this occurs when a VAT invoice is issued. If an invoice is not issued but goods have been supplied or services performed, VAT shall be charged no later than the last day of the tax period in which the chargeable event has occurred. When payments are made in advance, the VAT applies to those payments as they are made. Continuing services are deemed to be supplied on the last day of the tax period to which the invoice or payment relates.

Rates

There are two VAT rates applicable in Slovenia:

The standard rate of 20% applies to all supplies of goods and services not specified as being subject to the reduced rate or to exemptions.

The reduced rate of 8.5% applies to goods and services specifically defined by the VAT Act (for example: food, medicines, the supply of medical appliances for personal use of disabled persons, supply of water, supply of books and other printed materials, construction, renovation and supply of housing, tickets to cultural and sports events, etc.).

During negotiations for membership in the EU, Slovenia was granted a transitional period until 31 December 2007 during which the reduced rate may also be used for the supply of restaurant services and for the supply of households, even if it is not a part of social policy.

VAT exemptions

VAT is not charged on five categories covering various types of goods and services.

Exemption without right to deduction means that no VAT is charged but that the VAT paid on goods and services used in their production and distribution cannot be reclaimed.

In Slovenia, the following supplies are VAT-exempt without deduction:

- Certain activities in the public interest (most activities in the field of health, welfare, education, sport and culture);
- Other exemptions (including insurance, letting and leasing of immovable property, financial transactions, supplies of stamps, betting, gambling and lotteries, and supplies of immovable property);
- Exemptions on importation (travellers' allowances, all permanent importations of goods from outside the Community if their supply in Slovenia is in all cases exempted, reimportation, diplomatic arrangements, international organizations, temporary importation, exempt intra-Community acquisitions, and temporary transfers to another EU Member State).

The following supplies of goods and services are VAT-exempt with the right to deduction:

- Export of goods and similar transactions and international transport (export to third countries, the supply of goods as well as intra-Community acquisitions of goods destined to be placed under a special customs regime, and the supply of goods to recognized international organizations);
- Special exemptions linked to international traffic of goods (international sea and air transport of passengers and transport of luggage accompanying passengers).

VAT Declaration – Payment/Return of VAT

VAT must be paid by the end of the month following the end of each tax period. Registered persons must calculate their tax liability and submit a tax return for the tax period (calendar month, calendar quarter or half of a calendar year). Tax credits (excess of input tax over output tax in the tax period) may be carried forward to the following VAT tax period. However, any VAT registered person is entitled to a refund within 60 days of submission of a VAT tax return form, except for exporters who are entitled to a refund within 30 days of submission of a VAT tax return form.

Taxable persons not established in Slovenia are entitled to a refund of VAT paid in the Republic of Slovenia on supplies of goods and services and upon import of goods, if the conditions defined by law are fulfilled. These conditions are the following:

- A taxable person within a prescribed period has not supplied goods or services deemed to have been carried out in Slovenia; and
- VAT was paid in the course of business activity and would be refunded if the taxable person performed economic activity in Slovenia.

VAT refunds to taxable persons established outside the Community are granted on the condition of reciprocity.

Refunds are granted by the Tax Office of Ljubljana upon examination of a request of a foreign taxable person or its representative. Where a claim for a VAT refund refers to a period of six months, the amount of refund claimed may not be less than 50,000 tolar (approximately EUR 220). Where a claim for a VAT refund refers to the period of a calendar year or the remainder of a calendar year, the amount of the refund claimed may not be less than 12,000 tolar (approximately EUR 83).

Products and services from private agricultural activity are subject to a special scheme of a 4% presumptive payment by buyers as a refund on input VAT.

Natural persons not performing taxable activities are entitled to a tax refund (except on mineral oils, tobacco products and alcoholic beverages) when the value of goods exceeds 15,000 tolar (approximately EUR 66). A tax refund is possible within 6 months of the date of issue of the bill.

3.3.2 Excise Duties

Excise duties were introduced in Slovenia along with the VAT. For the moment goods subject to excise duties are tobacco products, alcohol and alcoholic beverages and energy products (mineral oils, natural gas, coal and coke). From 1 January 2007 excise duties will also be payable on electricity. Payment of excise duties is administered by the Customs Administration.

Excise duties are paid on excisable goods produced in Slovenia, imported from third countries or acquired from another EU Member State if they are intended for consumption in Slovenia. Normally, a producer, importer or trader pays excise duty, but if the goods are not intended for final consumption, they can be placed under a suspension regime. In this case, the excisable goods remain under the supervision of the competent customs office, and the excise duty is payable when the goods leave the suspension regime.

Taxable persons calculate their liability on monthly returns that they must lodge by the 25th day of the month following the tax period. They must pay excise duties within 30 days following the end of the tax period concerned. Excise duties on importation are payable as if they were customs duties (upon each importation).

The law for each excisable product defines tax rates and/or amounts of excise duties. They may be adjusted once a year to take into account inflation and other changes in the market. In the case of cigarettes, Slovenia is at the moment making use of a transitional regime but will gradually reach the minimum amount of excise duty defined by the EU directive. Excise duties for mineral oils change regularly to take into account circumstances on the mineral oils market.

Excise duty is chargeable when products subject to excise duty are produced, received from other Member States or imported into Slovenia from third countries. However, under special conditions provided by the law, the liability from excise duty may be transferred to the authorized tax warehouse-keeper or tax-exempt user.

The person liable to pay excise duty is the producer of excise products, registered trader of excise products received from another Member State, importer of excise products from third countries and legal or natural person, dealing in excise products at the wholesale level. All excise duty payers come under the supervision of the customs office and need to fulfil certain obligations as required by law.

Through an excise duty suspension arrangement, the basis for the suspension of excise duty is provided for the period of production, processing, storage and transportation of excise products.

The authorized warehouse-keeper is defined as a natural or legal person who acquires an excise license from the customs authority to establish a tax warehouse where products subject to excise duty are produced, held, received or dispatched under duty suspension arrangements.

Registered trader means a person who receives excise products from other Member States on a regular basis as a part of their business activity under an excise duty suspension arrangement; a registered trader must be authorised by the Customs Authority.

A non-registered trader is a person who occasionally receives excise products from another Member State, the conditions for instruments guaranteeing payment of excise duty being stricter in this case.

The rates of excise duties for alcohol and alcoholic beverages, energy products and electricity and tobacco products expressed in euros are given in Tables 6, 7 and 8 (1 EUR = 239.581 SIT).

Table 6: Duties on alcohol and alcoholic beverages

Description	per hectolitre (EUR)
Still wine	0.0
Sparkling wine	0.0
Beer*	6.9
Fermented beverages	0.0
Intermediate products	62.6
Ethyl alcohol*	7.0

* per % volume of alcohol

Table 7: Duties in Mineral oils and gas

Description	per 1000 litres unless specified (EUR)	
	Currently	Max.
Leaded petrol (selling not permitted)	421.2	619.9
Unleaded petrol	359.4	565.2
Gas, oil used as/for:		
- propellant	302.5	480.7
- industrial-commercial	151.3	240.3
- heating purposes	20.8	62.1
Liquid petroleum gas and methane used as/for:		
- propellant		
- commercial	134.2*	201.4*
- heating	67.1	100.7
	0.0*	0.0*
Kerosene used as/for:		
- propellant	302.2	444.7
- industrial-commercial	151.1	222.3
- heating purposes	55.0	
Heavy fuel oil	55.0*	

* per 1000 kilograms

Table 8: Duties on tobacco products

Description	
Cigarettes (per 1000 pcs)	EUR 54
Cigars, cigarillos (per 1000 pcs)	5% of retail selling price
Fine-cut tobacco (per kg)	EUR 32
Other smoking tobacco (per kg)	EUR 20

Since 1 July 2005, excise duty represents 57% of the retail selling price of the most popular price category and at the same time not less than EUR 54 in the tolar equivalent; as of 1 July 2006 not less than EUR 58; as of 1 July 2007 not less than EUR 62, and as of January 1 2008 not less than EUR 64 euros in the tolar equivalent for 1000 cigarettes, which is the minimum set by EU law.

Some goods are exempted from payment of excise duty, including those which are intended for export or for delivery in the context of diplomatic or consular relations, for international organizations, personal needs of foreign staff of diplomatic and consular missions or international organizations, or needs of armed forces of other state parties to international alliances.

Use of energy products (and electricity) is in some cases exempt from payment of excise duty: when energy products (and electricity) are used as motor fuels in air transport and maritime transport, and as fuel for fishing boats, except if used for private purposes; when they are used in power plants and in plants for combined generation of heat and power; when they are used in production of non-excise products or other energy products and electricity and when they are used in a few other specific procedures.

Bio fuels that consist of 100% bio-renewable sources are, under our legislation, excluded from the excise duty system. When they are added to fossil fuels in an authorized tax warehouse, a refund or exemption from payment of excise duty is possible in proportion to the share of the added bio fuel.

Alcohol and alcoholic beverages are exempted from payment of excise duty when used as raw material for the production of medicines or vinegar or production of foodstuffs, non-foodstuffs or flavours and non-alcoholic beverages.

3.3.3 Tax on Insurance Premiums

This tax is levied on insurance premiums and is payable by insurance companies and other legal providers of insurance services within the Republic of Slovenia. The tax rate is 6.5%.

The tax period for tax on insurance premiums is the calendar month. The tax must be paid within 15 days of the month following the month for which the tax return was submitted.

There are four exemptions from the tax on insurance premiums. These are:

- compulsory contributions for pension, disability and health insurance;
- premiums for health, accident and life insurance on the condition that the duration of the contract exceeds 10 years;
- premiums on insurance against accidents occurring outside Slovenia;
- sub-insurances.

3.3.4 Immovable Property Transfer Tax

This tax is levied on the transfer of immovable property if VAT has not been charged on such property. It is applied to the market value of immovable property transferred, but in certain cases the tax administration may adjust the taxable base.

In general, the taxpayer is the seller of the immovable property. The rate is 2% of the market value of the transaction.

The following transfers of immovable property are exempted: transfers to diplomatic and consular missions and other international organizations according to international contracts and conventions; transfers made under the privatization process; transfers of agricultural land; and transfers connected to enforcement of tax collection.

The taxpayer must submit details of the transfer to the local tax administration in the prescribed form within 15 days of the date on the contract. The tax office must issue a written bill for the tax within 30 days, and the tax due is payable within 30 days.

3.3.5 Motor Vehicle Tax

In the Slovenian tax system, road motor vehicles are burdened with additional types of duties. VAT is to be paid upon the transfer (for example, sale) of motor vehicles, but there are also the motor vehicle tax (MVT) and an environmental duty on used-up motor vehicles.

The motor vehicle tax must be paid for passenger motor vehicles which are put into circulation in Slovenia for the first time; imports and acquisitions from other EU Member

States are also taxed. The tax rate is determined on a progressive scale at 1–13% of the selling price of the vehicle.

The MVT is also chargeable on every transfer of used passenger cars, which must be registered, if VAT has not been paid on this transfer, with MVT in this case amounting to 5% of the selling price of the used car.

For trailer and track vehicles, water and air vessels and planes there is no MVT. Under the law in some cases, the use of road motor vehicles may be exempted from payment of MVT, or the tax can be refunded: vehicles for transport of disabled persons, vehicles for families with three or more children, exported vehicles and vehicles of diplomatic and consular missions in Slovenia and international organizations. Until 31 December 2009 motor vehicles which have official specific emissions of carbon dioxide lower than 110 grams per kilometre are exempt from this tax.

3.3.6 Customs Duties

As an EU Member State, Slovenia applies the common Community's customs legislation. The Community, being a Customs union and therefore an area without internal customs duties, collects uniform duties upon importation from third countries (i.e. countries outside the Community's customs area). Goods from third countries are cleared through Customs and import duties are levied at the place of importation into the Community. Consequently, goods from third countries destined for Slovenia may be cleared in any EU Member State and, vice versa, goods from third countries destined for another EU Member State may be cleared in Slovenia.

Uniform Community rules are applied for customs and tariff matters. Basic Community rules on customs matters are regulated in Council Regulation (EEC) No 2913/92 establishing the Community Customs Code, OJ L, 302, 19.10.1992, as amended, and in its implementing provisions contained in the Commission Regulation (EEC) No 2454/93, OJ L, 253, 11.10.1993, as amended. Rules on tariff matters are stipulated in Council Regulation (EEC) No 2658/87, OJ L, 256, 7.9.1987, as amended.

In certain circumstances and by virtue of the special conditions under which the goods are imported levying duties is not justified. In this respect Slovenia applies the provisions of the Council Regulation 918/83 setting up a Community system of reliefs from customs duty, OJ L 105, 23.04.1983. This regulation sets out those cases in which, owing to special circumstances, relief from import or export duties shall be granted respectively when goods are put into free circulation or are exported from the EU.

3.4 TAX PROCEDURE RULES

The basic aim of the new Tax Procedure Act applicable from 1 January 2005 was to regulate taxpayers' rights and obligations to a greater extent. Tax inspection procedures were more precisely defined, along with provisions on forced collection of public dues. With Slovenian membership in the EU, the Tax Procedure Act now includes all national provisions necessary to implement various EU directives concerning procedural issues in taxation (i.e. mutual assistance, recovery of claims, etc.).

4 DOUBLE TAXATION CONVENTIONS

Double Taxation Conventions (DTCs) lay down rules for the taxation of income or capital crossing international borders and define rights of taxation between two countries. The primary purpose of DTCs is to eliminate or reduce international double taxation and to prevent tax evasion.

DTCs contribute to the elimination of obstacles to the flow of goods, services, capital, persons and technology. Slovenia has a small but very open economy and, as such, pursues a policy that encourages cross-border economic activity by providing for non-discrimination and certainty in tax treatment.

DTCs concluded by Slovenia follow the OECD Model Tax Convention on Income and on Capital with some modifications. It should be noted that each convention is unique; therefore, careful review of DTC provisions is required when an issue is affected by such a convention.

Slovenia currently has DTCs in force with 37 countries. They generally cover income and property taxes. A number of new DTCs, are in the process of being negotiated. A list of applicable conventions is available on the Ministry of Finance web site:

www.sigov.si/mf/angl/dav_car/list_double_tax.htm.

The new Tax Procedure Act introduced special rules for claiming benefits under applicable DTCs in 2005. There are two methods available to non-residents claiming such benefits (previously only method b) below):

- a) Non-residents may claim the reduced tax rate or exemption in accordance with the provisions of the relevant DTC upon the payment of income, subject to prior verification of treaty entitlement at the competent Tax Administration Office ("reduction or exemption at the source" procedure), or
- b) If upon payment of income, tax is imposed according to Slovenian domestic taxation law, non-residents may subsequently be refunded the part of the tax that exceeds the amount that Slovenia can levy under the provisions of the DTC ("refund" procedure).

In order to better facilitate the use of methods a) and b) above, special tax forms for claiming verification of treaty entitlement or claiming tax refunds have been published. They are also available on the website of the Tax Administration of the Republic of Slovenia. According to the Act, the general limitation period for claiming a refund under b) is five years from the end of the calendar year in which the tax was paid.

5 FORTHCOMING TAX SYSTEM REFORMS

The Slovenian Tax System is further evolving with the aim of greater accessibility. Envisaged tax reforms as foreseen in recent government documents on forthcoming economic and social reforms provide for greater simplicity and clarity of the tax system, including a more client-oriented approach. This reform should also stimulate the economy and employment opportunities; therefore, the tax burden on labour should be lowered. The reduction in the tax burden on labour should be financed by reductions in expenditures and by increases in indirect taxes.

6 APPENDIX: SPECIAL ECONOMIC ZONES

The Law on Special Economic Zones (SEZ) (Official Gazette No. 45/1998 and 97/2001) determines the conditions and methods of establishing economic zones, the type of business activities permitted, conditions for performance and the special tax regime.

A special tax regime is granted under the Economic Zones Act according to amendments to the Act, which applies from 1 January 2002. According to the Economic Zones Act an economic zone operator may claim tax concessions for:

1. Initial investments in activities carried on or intended to be carried on in an economic zone (excluding relocations, whereby activities are moved into an economic zone from the rest of the Slovenian territory, or replacements of existing fixed assets with new ones) and the securing of new jobs linked to initial investments whereby the total number of jobs in the economic zone is increased; and
2. Securing new jobs not linked to initial investments whereby the total number of jobs in the economic zone is increased.

The Act also stipulates special provisions (certain limitations, reference to special rules in the area of state aid) in respect of being granted tax concessions.

The tax concessions are decided on by the tax authorities.

In accordance with Article 20 of the Economic Zones Act, for the purpose of carrying on its activity within the economic zone, an operator may be granted a tax concession in the following forms:

1. The corporate profit tax rate laid down by the law governing the taxation of profit of legal entities may be reduced; however, it must not be less than 10%;
2. An economic zone operator may on account of investments in assets in an economic zone claim within a particular calendar year a reduction in the corporate taxable base in the amount of the investment; however, the reduction must not exceed 50% of the investment made in the calendar year;
3. The operator may claim a reduction in the corporate taxable base in the amount of the total wages and salaries paid out to those trainees and other employees recruited in the course of the calendar year who had been registered for at least 6 month with the Employment Service before the conclusion of the employment contract; however, the reduction may not exceed 50% of the amount concerned.

As determined by Article 20, an economic zone operator may claim the above tax concessions for the purpose of co-financing initial investments or for job creation linked to the initial investments in:

- the setting-up of a new establishment;
- the extension of an existing establishment;
- the starting-up of a new activity involving a fundamental change in the product or production process of an existing establishment;
- the purchase of an establishment which has closed or which would have closed had it not been purchased.

The maximum intensity of the aid granted in the form of a tax concession for initial investment or for job creation linked to the initial investments above must not exceed 40% of

the eligible costs of the investment or job creation. If the economic zone operator is a small or medium-sized enterprise, the maximum intensity may be increased by 15 percentage points.

With regard to an initial investment, the eligible costs include:

- purchase of land;
- development of land by providing public utility and infrastructural installations;
- construction cost or purchase of a building or buildings;
- purchase of machinery and equipment, excluding the costs of the purchase of a passenger vehicle;
- costs of investment in intangible assets, but only under special conditions laid down by the regulations on the granting of regional state aid;
- preparation of initial investment studies and projects.

In the case of job creation linked to initial investments, eligible costs include the wage and salary costs of the new employees for a maximum period of two years, consisting of gross wages and compulsory social security contributions.

The tax concessions in respect of initial investments may be claimed only by an economic zone operator ensuring co-financing of at least 25% of eligible costs of the initial investment (excluding any state aid or other form of state financing).

Regarded as newly created jobs linked to initial investments eligible for state aid are jobs relating to the activity for which an initial investment was made and created no later than three years after the completion of the investment, and the jobs created within the same period as a result of the increase in the capacity utilization rate resulting from the investment. The increase in the number of jobs with an economic zone operator shall be reported as a net increase in relation to the average of the last twelve months.

The initial investment or newly created jobs linked to the initial investment, in relation to which the economic zone operator obtained tax concessions, must remain in the economic zone for at least five years after the investment has been made. Where the economic zone operator disposes of or transfers the asset out of the economic zone or removes newly created jobs before the expiry of this period, it is obliged, within the fiscal period in which the transfer, disposal or removal took place, to repay the corresponding amount of state aid received.

Where in addition to the tax concessions under this Act other state aids are granted to an economic zone operator with respect to a particular initial investment, the total state aid amount received must not exceed the maximum intensity (as described above).

Aid for employment

Subject to the conditions set out in Article 20b of the Economic Zones Act, an economic zone operator may claim the tax concessions laid down in Article 20 for the co-financing of job creation not linked to initial investments involving trainees and other persons who had been registered for at least six months with the Employment Service of the Republic of Slovenia before the conclusion of employment contracts. The maximum intensity of state aid for the job creation must not exceed 40% of the eligible job creation costs. Where the economic operator is a small or medium-sized enterprise, the maximum intensity may be increased by 15 percentage points. Eligible costs are wage and salary costs of new employees, covering a maximum period of two years, which consist of gross wages and compulsory social contributions.

An economic operator may be granted a tax concession if it increases the total number of jobs within a calendar year (a job increase is a net increase in relation to the average of the last 12 months). An economic zone operator may claim a tax concession for providing employment to the category of people with limited employment possibilities although the total number of jobs in a calendar year does not increase, provided the replacements are the result of termination of contracts due to resignations.

Newly created jobs for which tax concessions were obtained under Article 20 b of the said Law by an economic zone operator must be maintained for at least two years following the year in which they were obtained. Where the economic zone operator removes the job receiving state aid before expiry of the period concerned, it must, within the fiscal period in which the job was removed, repay the corresponding amount of the tax concession received.

Where in addition to the tax concessions under the Economic Zones Act other state aid is granted to an economic zone operator with respect to job creation, the total state aid amount must not exceed the maximum intensity determined above.

The following sections describe in more detail the notion of the special economic zone, the entities that can operate therein and other features.

a. The notion of a Special Economic Zone

A Special Economic Zone is an area under a special customs regime set up for conducting business activities. Business organizations established in such zones can benefit from preferential tax treatment on the condition that they export at least 51% of the goods and services produced within them.

Special Economic Zones are part of the customs territory of the Republic of Slovenia, separate from the remaining customs territory.

Special Economic Zones are subject to a special customs regime. Goods imported to the Special Economic Zones are exempt from payment of import duty on the condition that the goods are not declared for release for free circulation or are not spent or used in any way other than intermediate inputs for the production process. Similarly, domestic goods which are, due to intended export, placed in the Special Economic Zone are considered exported at the moment of their being placed in the zone.

b. Establishment of a Special Economic Zone

A Special Economic Zone may be established by one or more domestic legal entities. The founder must provide funds for the establishment and beginning of the operation of the Special Economic Zone ensuring adequate organizational, spatial, ecological, energy, technical and other conditions for the performance of activities in the zone, and adopt its establishment act. Government consent must also be obtained.

c. Entities allowed to operate in Special Economic Zones

Apart from the founder, other legal entities and undertakings registered for the performance of activities in a Special Economic Zone are allowed to operate therein. Foreign companies can also operate in Special Economic Zones provided that they are registered in the Republic of Slovenia for the performance of the activities to be carried out therein. Like every other company, foreign companies must register their activity in a Court of Law.

Companies or other undertakings are allowed to operate in Special Economic Zones on the basis of a contract concluded with the founder. They may start to operate in the Special

Economic Zones after having obtained the necessary approvals of customs authorities concerning record keeping.

If the company is engaged in other activity in the territory of the Republic of Slovenia, it is required to carry out separate bookkeeping for the activities it performs in the Special Economic Zone.

d. Record keeping

For the purpose of customs supervision, a company established in a Special Economic Zone and involved in activities related to the import and export of goods and their processing must keep the following records:

- goods placed into the Special Economic Zone;
- goods removed from the Special Economic Zone;
- goods used in the Special Economic Zone;
- changes of goods in the Special Economic Zone.

e. Supervision of the operation of the zone

Supervision of the legal aspects of handling goods in the Special Economic Zones are carried out by the Customs Authority in accordance with the SEZ and by the Tax Authority in relation to the proper implementation of tax relieves.

f. Existing special economic zones

Currently there are two operating Special Economic Zones in Slovenia: the Koper Economic Zone and the Maribor Economic Zone. The Koper Economic Zone is located in the Port of Koper at the Slovenian coastline on the Adriatic Sea. The Maribor Economic Zone is located in the town of Maribor close to the Slovenian border with Austria.

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