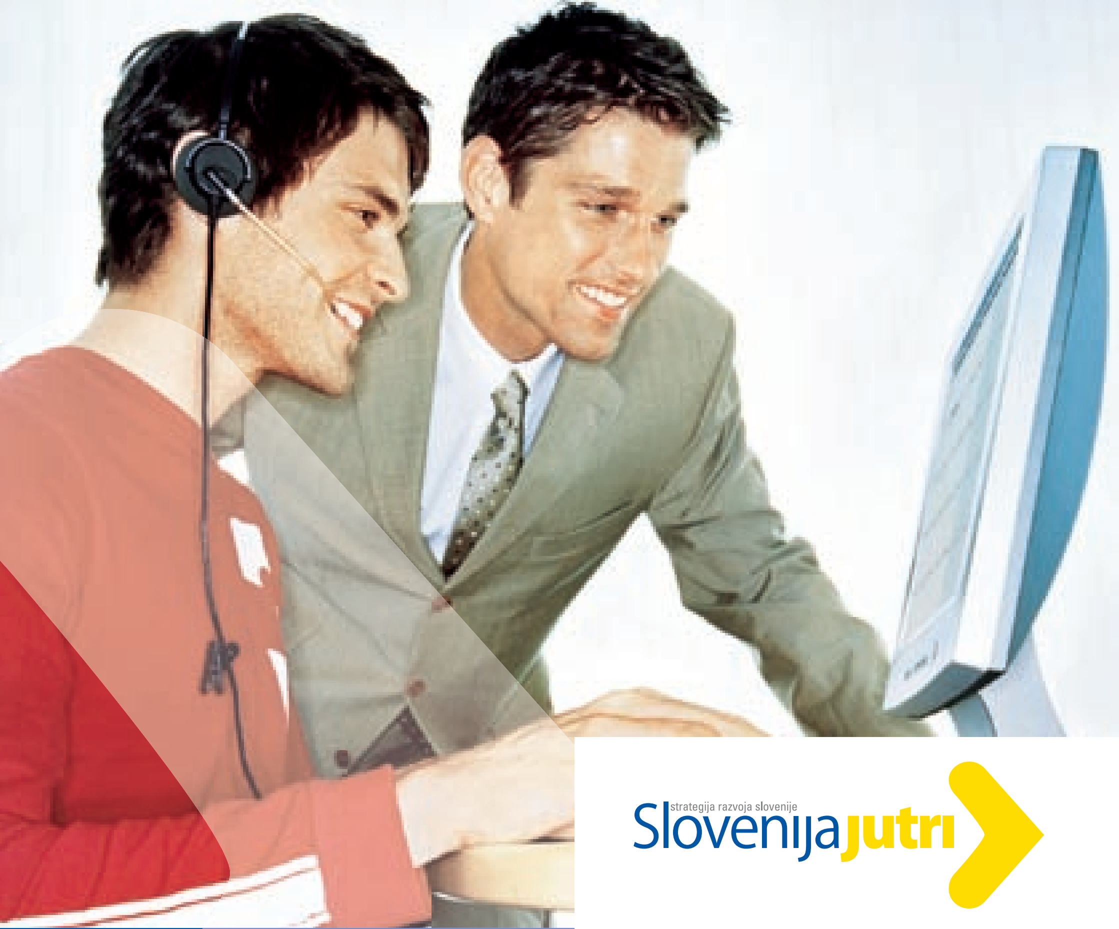

strategija razvoja slovenije

Slovenija jutri

TAX REFORM FOR A BETTER TOMORROW

Where we stand at the moment

The current tax legislation places a high administrative burden on everyday life. Taxable persons have to complete many complicated forms, which the tax administration then has to review and, due to the nature of procedures, neither is immune to making mistakes.

Constant changes to the taxation systems have contributed to work in Slovenia being among the most highly taxed in Europe, which diminishes the competitiveness of the economy and eats away companies' investment capital which would otherwise pour into research and development, as well as provide greater security to employees. Current tax legislation favours neither entrepreneurs nor individuals, as it does not provide real incentives. The purpose of amending and simplifying the tax system is not to redistribute, but to add value to companies and individuals.

These are only a few reasons why tax reform is imperative.

Last year already brought positive changes. Amendments to the Personal Income Tax Act introduced a tax revenue system according to which part of the income – interest, dividends and capital gains – is taxed on a proportional scale (20 or 15 per cent for interest), while the other part (primarily employment income, tax on incomes from business activities and from agriculture) is still taxed according to five progressive rates (from 16 to 50 per cent). Many advantages were introduced, such as exemption from tax on allowances for big families.

By 2009, amendments to the Payroll Tax Act will abolish the payroll tax, which significantly burdens the cost of work. The amended act proposes that the payroll tax rates are lowered in three years, thus reducing the amount of taxation imposed on salaries and consequently lowering the cost of labour for all salaries higher than SIT165,000. Accordingly, the rates will be lowered by 20 per cent this and next year, and by 30 per cent in 2008.

The Purpose of the Tax Reform

The second phase of the tax reforms, which is being prepared by more than forty academics, economists, professionals and experts from the Ministry of Finance, aims to disburden both individuals and companies, create a competitive taxation system, and simplify regulations and the completion of tax forms. The measures and simplification introduced in the tax reform will have a positive influence on the economy and welfare, while also being aimed at motivating people to work and acquire knowledge.

With the proposed solutions, we wish to disburden Slovenia's economy and create conditions which would facilitate greater competitiveness in foreign markets. Reforms should help the economy to restructure, contributing to more sophisticated technological processes, greater intensity of human capital, and higher added value. A more competitive and restructured economy will increase employment, thereby providing higher social security and reducing the social exclusion of individuals.

The main objectives of the tax reform

- **Ensuring a socially sustainable system**

The principal guideline in the tax reforms was not to reduce the social position of people with the lowest incomes and at the same time abolish inequalities arising from inefficient tax regulations.

- **Lowering labour costs**

A lower tax burden compared to what the companies are paying now will lower labour costs and contribute to releasing the necessary financial resources which companies can direct into increasing funds for research and development, investing in new technologies and new production methods, and creating new jobs.

- **Creating a competitive tax environment by simplifying legislation on corporate income tax**

This will create an appropriate development environment which will encourage companies to strive to reach the so-called Lisbon goals – investing in research and development and innovations, employing a highly-educated work force, and restructuring the economy to facilitate more technologically-intensive production and higher added value.

- **Increasing legal security by changing tax procedures**

More transparent legislation and particularly tax procedures will ensure the greater legal security of taxpayers, as each would know in advance the type and amount of taxes to be paid.

- **Lowering companies' costs by simplifying settling and payment of taxes**

By ensuring a transparent tax procedure, the greater legal security of taxpayers, and simplifying tax procedures, the administrative burden on the tax administration and particularly on taxpayers will be reduced, thus encouraging greater willingness to meet taxation obligations.

- **Simplifying regulations and making them more comprehensible**

The tax legislation will be clear, so that every taxpayer will know which taxes to pay and what the amount will be, while tax forms will be transparent and pre-completed by the tax administration, thus lowering the risk of error or incomprehensibility.

Taxing the income of natural persons through personal income tax

Income tax rates

Unlike the current system, which has five progressive rates (from 16 to 50 per cent), the new scheme introduces only three rates: 16, 27 and 41 per cent.

This scale applies to income from employment, business income, incomes from basic agricultural and forestry activities, rental income, and royalties. Capital gains, dividends and interest will be taxed at a 20 per cent flat rate (15 per cent for interest in 2006 and 2007).

By changing to a three-step progressive income tax scale there will be more opportunities for employing highly educated staff and for keeping pace with technologically advanced global companies. Consequently, some allowances will be abolished, while the general allowance will increase from EUR 2,522 to EUR 2,800. Family allowances will remain unchanged.

Determining the taxable base will be simplified:

- the differentiation between incomes of individual businesses, and income from business activity and employment will be abolished,
- more taxpayers will be able to determine their taxable base on the basis of actual costs incurred and normalised expenses,
- the amount of income from land for farmers' households will be determined – up to this amount, this income will not count as basic agricultural or forestry activity and therefore not be taxed,

taxable base in tolars		**personal income tax in tolars**			
more than	up to				
	1.629.550		16 %		
1.629.550	3.259.104	260.728	27 %	more than	1.629.550
3.259.104		700.708	41 %	more than	3.259.104

taxable base in euros		**personal income tax in euros**			
more than	up to				
	6.800		16 %		
6.800	13.600	1.088	27 %	more than	6.800
13.600		2.924	41 %	more than	13.600

- in levying taxes on capital gains, normalised costs will be introduced, as opposed to the current actual costs.

These measures will increase the legal security of taxpayers and help render the system more transparent.

Taxation of legal persons

Necessary changes will also be introduced to the **Corporate Income Tax Act**. The goal is to draw up a development-orientated act. The general taxable base stipulated in the act is 20 per cent. Transitional provisions set out the following rates: 23 per cent in 2007, 22 per cent in 2008, 21 per cent in 2009, and 20 per cent from 2010 onwards. The tax settlement is lowered from 25 per cent to 15 per cent.

Profound changes are also to be introduced in establishing and determining the **taxable base:**

- abolishing double or less than single taxation ,
- abolishing the double economic taxation of dividends,
- exempting from the taxable base gains from disposal of property under certain conditions,
- establishing a taxable base in the revaluation and formation of provisions,
- complying with general the accounting principles laid down in the International Financial Reporting Standards (IFRS) and Slovenian Accounting Standards, effective from 2006 (SRS 2006),
- determining precisely and clearly income not recognised for tax purposes.

Numerous **administrative simplifications** from which the taxpayers will benefit have also been proposed:

- a shorter period during which a taxpayer cannot change the chosen tax period (three years),
- simplifying the exemption of dividends (abolishing the condition of participation in a company's stock or management of the payer of dividends in the amount of at least 20 per cent, and the condition that the duration of participation is at least 24 months),
- abolishing time limitations in the valuation of stocks when introducing a new method of valuation,
- transferring losses into the following tax period for an indefinite time,
- introducing notification, instead of the current granting of permission in cases of statutory conversion.

Taxation of goods and services

The **Value Added Tax Act** stipulates two rates. The draft act introduces the following simplifications of the system and harmonisation with EU law:

- greater transparency of the law,

- adjusting sums due to the introduction of the euro,
- raising the value level from SIT 20,000,000 to SIT 50,000,000 in determining the tax period of VAT registered persons paying VAT every three months, which will simplify the procedure,
- VAT refunds will not be limited to the amount of tax credit – upon request every VAT registered person will be refunded within 60 days of submitting the VAT return form,
- bonded warehouses for VAT registered persons will facilitate tax deferments until the removal of goods from the bonded warehouse,
- it will be possible to send electronic invoices accompanied by an electronic exchange of data,
- stipulating small taxable persons who are not charging VAT will also result in simplification as exempt from VAT,
- for small taxable persons not identified for VAT purposes the threshold for registering will be raised from the turnover of EUR 20,800 to EUR 25,000 ,
- separate book-keeping for VAT will no longer be compulsory.

The Real Estate Sales Tax Act will change regulations on previously untaxed transfers of real estate.

Taxation of property

The property tax system will be amended by a new **Inheritance and Gift Tax Act** which will modernise the current system, particularly by regulating currently legal relations, which, as to merits, have the nature of an inheritance or gift, and are not regulated or defined enough in the current act. The current definition will be expanded to include legal entities under private law. Those subject to the tax will also be stipulated in greater detail. Class I inheritance relations will still be exempt from paying the tax.

The reform also provides for the modernisation of the current system of taxing vessels. **A new vessels tax** will tax the property of all vessels longer than five metres. The tax will be levied by the tax authority. The tax liability is comprised of three parts: a lump sum for every vessel, a sum depending on the length of the vessel, and a tax depending on the power of the engine used by the vessel.

Tax procedure

The new **Tax Procedure Act** will greatly simplify tax procedures and eliminate all unnecessary administration on the part of the taxable person and the tax authority. The costs of implementing tax legislation will be reduced, and the efficiency of the tax administration will be increased.

Major changes can be outlined as follows:

- the act will contribute to eliminating unclear points in procedures and consequently increase the legal security of taxable persons,
- the Tax Procedure Act will regulate the principles of tax procedures,
- different opportunities to meet tax liabilities beyond deadlines will be offered,
- reform of the procedure for self-reporting errors in tax returns,
- late entries of tax declarations and returns will be permitted,
- the new act will facilitate extending the deadline for appeals if the taxpayer does not agree with the decision of the audit (the deadline for ppeals will be extended by 15 days, i.e. to 30 days),
- informative calculation of personal tax income is prepared by the tax authority,
- the taxpayer pays the settlement in seven days after paying the income,
- the number of forms will dramatically decrease.

The tax reform will facilitate a more just and efficient tax system.

More information:

- Ministry of Finance
  http://www.gov.si/mf/slov/dav_reforma/dav_reforma.htm
- Slovenia Tomorrow!
  http://www.slovenijajutri.gov.si/

The Tax Reform for a Better Tomorrow publication is an integral part of the communication strategy of the Government of the Republic of Slovenia, with which we aim to contribute to providing information on the implementation of Slovenia's Development Strategy and to understanding the impact of the economic and social reforms on everyday life.

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