

# Doing Business in Slovenia

2008



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## Introduction

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in over 70 countries throughout the world. Business partners work together throughout the network to conduct trans-national operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering a business operation in Slovenia has been provided by the office of UHY's representative there:

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UHY Revizija in svetovanje d.o.o. specialises in auditing of financial statements (85%). The other fields of our expertise are business valuations, tax and business advisory services. Clients include companies from many different sectors: civil engineering, manufacturing, trade, banks, casinos, saving banks, food, furniture and many others.

Information in the following pages has been updated so that it is effective at the date shown, but inevitably it is both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at September 2008.

We look forward to helping you do business in Slovenia.

The UHY Revizija in svetovanje d.o.o. is a member of UHY, an international association of independent accounting and consultancy firms, whose organising body is Urbach Hacker Young International Limited, a UK company. Each member of UHY is a separate and independent firm. Services described herein are provided by UHY Revizija in svetovanje d.o.o. and not by Urbach Hacker Young International Limited or any other member of UHY. Neither Urbach Hacker Young International Limited nor any member of UHY has any liability for services provided by other members.

## 1. Business environment

Slovenia has a fairly favourable geo-strategic position. Europe's main commercial and economic centres are just a short flight away. To reach Ljubljana, Slovenia's capital city, takes less than an hour if travelling by plane from Vienna, a little over sixty minutes from Frankfurt, Munich and Zurich and approximately ninety minutes from Paris.

Slovenia became an independent state in 1991 and in 2004 it became a full member of the European Union. It occupies the territory of merely 20.273 km<sup>2</sup> and it has the population of approximately 2 million.

Surrounded by four neighbouring countries, Slovenia is certainly orientated westward. In its orientation Slovenia takes advantage of its familiarity with south-eastern Europe's (former Yugoslavia republics) languages and business culture.

Over the past nine years Slovenia has experienced steady and sustained economic development. The GDP annual growth has not fallen below 3%. Between 2001 and 2006 the actual GDP growth has stayed at an average of 3.97% per annum.

This growth has been mostly stimulated by overseas demand and its stability is the result of the existing economic structure. Although in 2006 the service sector generated more than 63% of Slovene GDP, the most important sector is still the manufacturing industry (21%).

By achieving over 80% of the EU average GDP per capita in 2006, Slovenia has attained the level equivalence of less advanced EU member countries.

Slovenia is also a favourite tourist destination. The Slovene tourist industry, with annual revenues of EUR 1.450bn, represents 9.7 % of GDP and as such it represents approximately 11% of overall service sector's income.

Slovenia is located amidst three distinctly different European worlds – Mediterranean, Alpine and Pannonian – each leaving its own mark and making Slovenia a unique countryside combining various geographies and cultural characteristics.

**Area**

20, 273 km<sup>2</sup>

**Population**

2.010.377 (December 31, 2006)

**Language**

Slovene

**Political system**

Parliamentary democracy

**Capital**

Ljubljana (population of 267,563)

**GDP per capita**

EUR 10.701 (2000), EUR 11.298 (2001), EUR 12.084 (2002), EUR 12.695 (2003), EUR 13.400 (2004), EUR 14.116 (2005), 15.167 (2006)

**Currency**

EURO (EUR), since 1<sup>st</sup> of January, 2007

**Gross Domestic Product (GDP) growth in 2006**

5.7 %

**Standardised rate of unemployment (ILO)**

7 % (2000); 6.4% (2001), 6.4% (2002); 6.7% (2003); 6.3% (2004); 6.5% (2005); 6.0% (2006)

**Inflation rate (%)**

8.9 (2000); 7.0 (2001); 7.2% (2002); 3.2 (2003); 4.6 (2004); 2.5 (2005); 2.8 (2006)

**External trade**

Export (in mil. EUR): 20,515 (2006)

Import (in mil. EUR): 20,816 (2006)

Export/import ratio (%): 98:55 (2006)

**Major external trading partner countries (2006)**

Export: Germany, Italy, Croatia, Austria, France, Serbia and Montenegro

Import: Germany, Italy, Austria, France, Croatia, Netherland

## **2. Foreign investment**

There are no restrictions regarding the legal status of foreign investors. Both foreign legal entities and individuals are permitted to invest in Slovenia, unless otherwise stated under the Foreign Exchange Act and relevant international agreements.

All foreign investors receive full national treatment, i.e. companies with foreign capital participation and companies overall owned by foreign entities registered in Slovenia enjoy the status of Slovene legal entities. Slovenia treats and deals equally with foreign and local companies.

### **Sectoral restrictions**

The direct investments of non-residents in the Republic of Slovenia are free of any restrictions. However, some areas of investment are limited by certain prohibitions and are as such subject to special conditions of approval procedure by competent authorities. The prohibition applies to the areas of production and trading in armaments and the provision of budget-financed obligatory pension and health insurance. The participation of foreign capital is not allowed in the sphere of gambling activity.

### **Immovable property ownership**

The foreign individuals may own immovable property in Slovenia, if it was inherited and by respecting the reciprocity principle. As to the agreement, the EU nationals may acquire real estate in Slovenia, if they submit proof of continuous three year residence in Slovenia and by following the reciprocity principle.

The legal entities in foreign ownership registered in Slovenia are regarded as Slovene entities and are not subject to restriction with respect to land ownership.

### **Repatriation of profits and capital**

There are no restrictions imposed as for the repatriation of profits or capital investments; however the companies are obliged to submit evidence of fulfilling all obligations towards Slovenia (i.e. tax liabilities).

### 3. Setting up a business

The Slovene Companies Act provides for the establishment of companies and partnerships as follows:

Partnerships:

- Limited partnership
- General partnership
- Silent partnership

Corporation forms:

- Public limited liability company
- Limited liability company
- Limited partnership by shares

The Slovene Companies Act also provides the establishment of overseas company branches.

#### Registration procedures

- The authorisation of the article of association and appointment of managers by the Slovene notary public.
- Opening of a temporary foreign and local currency account with the selected local bank.
- Settling the founding capital.
- The application for entering in to the register of companies (within 15 days of the agreement on incorporation adoption).
- Registering the company with the Statistical Authority and the Tax Authority.

The registration procedures upon the authorisation of the agreement on incorporation take up to three weeks approximately.

The compulsory documents required to register a company by a legal entity are:

- the registration certificate of the founding company translated into Slovene;
- a copy of an identification document of the appointed manager or proxy (if the identification document was issued by a foreign authority, the copy must be certified and translated by the Slovene court interpreter);
- the authentication of manager's and/or proxy's signature by the Slovene notary public;

- the founding company's letter of attorney issued to a person signing the foundation charter of the new company. The letter of attorney has to comprise a signature of the founding company's managing director and it has to be certified and translated by the Slovene court interpreter;
- the legalised agreement on incorporation.

The compulsory documents required to register a company by an individual:

- a copy of an identification document of the appointed manager or proxy (if the identification document was issued by a foreign authority, the copy must be certified and translated by the Slovene court interpreter);
- the authentication of manager's and/or proxy's signature by the Slovene notary public.
- the legalised agreement on incorporation.

## **4. Labour**

### **Employment of foreigners**

The foreigners granted work permits or other equivalent permits (international agreement based permits) are allowed to undertake employment in Slovenia.

A work permit is granted when applied for by employer. Such permits allow foreigners to undertake employment with the applicant employers. A work permit is also granted to foreigners when the Slovene unemployment register is unable to offer an alternative worker for the position, and the annual work permit quotas have not been met. Work permits are granted for the term of one year at the most.

Work permits are granted to foreign executive workers with no regard to condition on the labour market.

The foreigners may apply for a work permit by themselves and in this way they may take on the employment offered or become self-employed. The issue of such work permits is not linked to the current labour market situation. An individual work permit for the indefinite term may be granted to a foreigner with a permanent residence in the Republic of Slovenia.

## 5. Taxation

A taxpayer is a resident legal entity showing operating profit in Slovenia and with the head-office's address in Slovenia (worldwide principle), as well as non-resident legal entity showing operating profit in Slovenia (source principle).

The following organisations are exempt from tax: the Bank of Slovenia, the Republic of Slovenia, and municipalities, humanitarian, religious and ecological organisations. The profits from overseas are not liable to duty if they were levied a foreign corporate tax of no less than 12.5%.

The profit shown in the tax return represents the tax base. Losses may be carried forward without time limitation. The straight line depreciation of tangibles and intangibles may be built in the company's costs.

The corporate income tax rate for the year 2007 is 23% and will be lower for 1% each year, until 2010 (20%).

### **Tax incentives**

Taxpayers are entitled to a deductible allowance equivalent to 20% of financial resources invested in the equipment used for research and development. The sum is not to exceed the sum of the tax base. If such intangibles are to be sold within the term of three years of the year of granting the allowance, before the expiration of stated period, the tax base must be increased for the amount of allowance in the year of the sale.

Taxpayers with disabled workers are entitled to deductible allowance of up to 50% of salary (70% of salary of workers with 100% disability).

Taxpayers are entitled to decrease their tax base by the amount of a donation for humanitarian, religious, scientific, educational, sport, cultural and ecological purposes limited to 0.3% of their turnover. Donations to political parties and trade unions are tax deductible when the amount does not exceed the taxpayer's three average monthly salaries.

The cumulative allowances are not to exceed the sum of the tax base.

Slovenia has signed double taxation agreement with the following countries:

Austria	Greece	Norway
Belgium	Hungary	Poland
Bolgaria	India	Portugal
Bosnia and Herzegovina	Ireland	Romania
Canada	Italy	Russia
China	Korea	Serbia and Montenegro
Croatia	Latvia	Slovakia
Cyprus	Lithuania	Spain
Czech Republic	Luxemburg	Sweden
Denmark	Macedonia	Switzerland
Estonia	Malta	Thailand
Finland	Moldova	Turkey
France	Netherlands	United Kingdom
Germany		United States

## Dividends

The dividends paid out by a local company are subject to a withholding tax of 23%, if the transfers are executed within the territory of Slovenia. The gross dividends are included in the recipient's tax base. The withholding tax paid at the distribution is deductible from the recipients' income tax when the tax report is filed.

An EU-based companys are exempt from the withholding tax, except if they were levied a foreign corporate tax of no less than 12,5%.

## Personal income tax

### Subject to taxation

- residents - income sourced in Slovenia and abroad and
- non-residents - income sourced in Slovenia

**Personal income tax sources:**

- earned income
- capital gains, dividends, interests
- rents
- income from proprietary right
- agricultural income and
- private business profits.

An individual's overall personal income tax base is the aggregate value of tax bases from the above mentioned sources.

The tax rate is equivalent to 16% minimum or up to 41% maximum, depending on the tax bracket of the individual taxpayer.

The personal income tax base can be decreased by an additional 2% for the amounts invested in property, education etc.

**Earned income**

Earned income comprises salaries, pensions, contractual work revenues and state or other bonuses.

Subject to taxation:

- residents,
- non-residents receiving income in Slovenia and
- residents working in Slovenia and receiving income from abroad.

Salary or other job related revenues paid out in money or any other way and stopped for social security contributions represents a tax base. Job related retributions are exempt from taxation unless otherwise stated under the government decree.

The income tax reliefs (for year 2007)

Common income tax relief (2.800 EUR), tax relief for provided family members (2.066 EUR for the first child, 2.246 EUR for the second, 3.746 EUR for the third) disabled persons (for 100% disability 14.971 EUR) and persons over 65 (1.205 EUR).

The salaries are taxed at source by employers and have to be settled on the day of the salary remittance.

Certain incomes are exempt from taxation, for example disbursement to redundant staff, scholarships, etc.

**Capital gains, dividends, interests**

Subject to taxation are residents and non-residents with capital gains in Slovenia from selling real estate, securities and other capital shares at a profit. The tax rate is 20%.

The effective tax rate for capital gains depend on duration of the investment: until 5 years (20%), after 5 years (15%), after 10 years (10%), after 15 years (5%), 20 and more years (0%).

Income from bank interests diminishes by 1.000 EUR. The tax rate is 15%.

Foreign individual investors may repatriate capital and profits upon obtaining conformation of the capital gains tax settlement. The capital gains of Slovene legal entities are taxed indirectly through the corporate income tax, while the foreign legal entities are not liable to pay the capital gains tax on share transactions in Slovenia.

### **Rents**

Subject to taxation are residents and non-residents with revenues from renting real estate or moveable properties. Real estate income diminishes by 40% of the standardised expenses or by the actual maintenance costs of the real estate in the fiscal year.

The tax rate is 25%. The effective tax rate is dependent on the individual investors' marginal tax rate computed after filing the tax report.

### **Income from proprietary rights**

Subject to taxation are residents with revenues from copyrights, inventions, distinctive marks and technical improvements in Slovenia or overseas. The tax base diminishes by 10% of standardised expenses or by actual costs.

The tax rate is 25%. The effective tax rate is dependent on the individual investors' marginal tax rate computed after filing the tax report.

The income from proprietary right is taxed at source.

## **Social security contributions**

Social security contributions (pension, health care, employment and maternity leave) are partly settled by employees (22.1% of gross salary) and partly by employers (16.1% of gross salary). Employers are liable to settle the contributions on the day of the salary remittance. Self-employed individuals are liable to settle overall contributions.

## Payroll tax

The taxpayers liable to pay the payroll tax are legal entities and individuals, who pay out salaries and are obliged to settle social security contributions. The monthly gross salary of the employee represents a tax base. The tax rates are as follows:

Gross salaries in EUR	Tax rate percentage of gross salaries
Under 688,53	0%
688,53 – 1.669,17	2.3%
1.669,17 – 3.129,69	4.7%
Over 3.129,69	8.9%

It is intended to abolish the payroll tax from the January 2009 and in anticipation of the tax rate is lower each year.

## Property transfer tax

The property transfer tax is equivalent to 2% of the contracted price and is paid by the selling party.

## VAT

Value added tax, VAT, is charged, levied, collected and paid in respect of supply and import of goods and services. Under the Value Added Tax Act the common tax rate is equivalent to 20% and reduced to 8.5%.

The following are liable for zero-rated VAT: medical services, social security, education, sports, religious services, political and humanitarian activities, and certain cultural services and the like. Provisional imports are zero-rated too.

The following are liable for VAT at the reduced 8.5% rate: human and animal food (except alcoholic beverages), livestock, seeds and seedlings, manure and fertilisers, hotel lodgings, the supply of water, medicines and

medical equipment, public transport, books, periodicals, compact discs, copyright, art, etc.

### **Excise duties**

Excise duties apply to the production and import of alcohol and alcoholic beverages, tobacco, mineral oils and gas.

## 6. Accounting & reporting

Companies operating in Slovenia are obliged to keep their records and prepare annual financial statements in accordance with the Slovene Accounting Standards issued by the Slovene Institute of Auditors. The domestic professional efforts provided the basic framework for the Slovene Accounting Standards in accordance with the compulsory framework of the International Accounting Standards and directives of the European Union.

The business organisation of which the financial statements are to be audited is defined under the Companies Act. The Slovene auditing profession fully adopted the International Standards of Auditing.

According to Slovene company law, compulsory auditing applies to:

- larger and medium-sized public limited liability companies,
- larger and medium-sized limited liability companies,
- associated companies,
- listed companies.

The size of the company is determined according to the criteria stated under the Companies Act (at least two items of specified criteria must be realised):

Medium-sized company:

- 50-250 employees
- total turnover of 1,70 to 6,80 billion SIT
- assets at yearend of 0,85 – 3,40 billion SIT

Larger company:

- over 250 employees
- total turnover over 6,80 billion SIT
- assets at the yearend over 3,40 billion SIT

### Reporting period

Personal income tax returns have to be handed in to the tax authority not later than March 31st of the current year.

When the fiscal year equals the calendar year, the corporate income tax returns have to be delivered to the tax authority by no later than March 31st of the current year. Where the fiscal year is reconciled with the business year (if different from the calendar year), the corporate income tax returns have to be delivered to the tax authority within three months of the year end.

## 7. UHY in Slovenia

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### About UHY Revizija in svetovanje d.o.o. (Ltd.), Chartered Accountants

The partners started auditing in 1993, when the activity of auditing was regulated by statute in Slovenia. Prior to that, senior partners acquired extensive experience and training as audit group members of foreign auditing organisations.

The company currently employs 9 professionals, 3 of them are certified auditors. In 2005 the company was the fifth largest practice in Slovenia in terms of turnover, from a group of 48 firms, making it the fifth largest local audit firm.

The core business of our practice is still the auditing of financial statements (85%). The other fields of our expertise are business valuations, tax and business advisory services.

We currently perform audits for over 60 clients, mainly middle-sized companies operating in various lines of business from trading to the financial sector. Our broad client base allows us global insight into various business sectors.

The company was entered in the Register of Auditors by the Slovene Institute of Auditors under RD-A-073/05.

## **Our services**

### **Auditing**

Our firm can provide you with cost-effective auditing services that meet local and international statutory and regulatory professional requirements, and, most importantly, meet your needs.

The assurance to be gained from a rigorous local audit by auditors who recognise that the ultimate owner of the business is their true client should not be underestimated.

But the annual audit is more than a control procedure or a statutory obligation. It also offers a fresh insight into your business - an insight that could identify opportunities to improve your foreign business activities.

UHY member firms are experienced auditors of groups operating in several countries. We are frequently appointed parent company auditors with responsibility for managing the audit process across the whole group.

Just as often, we act as auditors of a subsidiary undertaking, applying our skills to ensure that a parent company's reporting requirements are met.

We are particularly happy to carry out multinational audit work with a team of UHY member firms, but we also have a great deal of experience in co-operating successfully with other firms as necessary.

### **Taxation**

International tax is becoming increasingly complex and wide ranging, impacting upon the plans and operations of cross-border groups more and more.

You need to structure your business and operations so as to minimise taxation on earnings and capital, both for the business and individuals.

UHY's specialist tax partners are experienced at guiding clients through the maze of tax legislation. They can advise on issues like:

- VAT issues,
- dividend, royalty or interest planning,
- a comparison between subsidiary and branch operations,
- employee benefits and payroll planning,
- international tax treaty analysis, locating the most beneficial sites for new trading operations or holding companies.

### **Appraisals**

Our company was granted the Certificate of the Slovene Institute of Auditors for Business Valuations.

In practice, so far we have appraised over 60 companies, among them leading Slovene enterprises in the sphere of construction, paper industry, furniture, trade, manufacturing and food processing.

### **Business advisory services**

Our clients frequently turn to us for advice on many aspects of running their businesses. As experienced business advisors we are often asked to help with issues like:

- business plans and development options,
- alternative methods of extracting profits,
- accounting advisory services.

## **8. UHY firms worldwide**

For contact details of UHY offices worldwide, or for details on how to contact the UHY executive office, please visit [www.uhy.com](http://www.uhy.com)