



Independent legal & accounting firms

Doing Business in Slovenia

Edition No. 1 / March 2021



Doing business in Slovenia



MSI's guide on Doing Business in Slovenia provides current information about the financial, regulatory and legal considerations that could affect business dealings within Slovenia. For further assistance please contact our MSI member firm in Slovenia.

Country overview

Population

Slovenia has a total population of 2.11 million inhabitants (January 2021).

Government

Slovenia is a parliamentary Republic. The current President is Borut Pahor. The President has very limited political power, as the Government is politically responsible together with its Prime Minister as the head of Government. The ministers are the people's representatives with respect to the actions of the government. The Slovenian Parliament is bicameral, consisting of the National Assembly and the National Council. However, it is an imperfect bicameralism as the National Council has practically no political power. The head of state does not bear political responsibility and can therefore not be held politically accountable by the parliament.

Slovenia has 12 statistical regions and 212 municipalities, where only municipalities have their own local authorities.

Languages

The national language is Slovene. However, most people speak very good English as well, especially in the big cities like Ljubljana, Maribor, Celje, Kranj, Koper. Often people speak also German, Italian and Croatian.

Currency

The national currency is the Euro.

Economic summary

GDP: €48,4 billion

Income per capita: €23,165

Inflation: -0.7%

Main sectors of the economy

The country's geographical location in Central Europe ensures that economical activities are rapidly internationally developing in a way of increasing export. Excellent geo-strategic position opens possibilities for good connection with the rest of the European Union and with Eastern Europe and the Balkans. Given the fact that Slovenia is still a relatively young country, its economy is growing rapidly and mainly depends on international trade.

The main economic activity is the automobile and chemical/pharmaceutical industry, which mainly focuses on the export of products. Also, very important is the port in Koper which offers the shortest connection to the Mediterranean, the Middle and Far East via the Suez Canal. Main destinations of export (2019) represent Germany, Italy, Austria, Croatia and France, which are also the main countries from where Slovenia imports the goods and other products. In addition, important industrial activities and important branches at the same time are the wood industry, the development of electronic products and food and drinks industry.

EU country/ Non-EU and its impact on businesses and investors

Slovenia is a member state of the European Union. Slovenia is an attractive base for doing business and for investments. Its open and international outlook, well-educated work force and strategic location are contributors. The attractive fiscal climate and technological infrastructure create favourable propositions for international

business. Slovenia is an excellent starting point for entry into the markets of Eastern Europe and the Balkans.

Setting up a business

Under Slovenian law, a foreign individual or company may operate in Slovenia through an incorporated or unincorporated entity or branch. Slovenian corporate law provides a flexible and liberal framework for the organization of subsidiaries or branches. There are no special restrictions for a foreign entrepreneur to do business in Slovenia.

The business operations can be set up in Slovenia with or without a legal personality. If a legal entity is formed as limited liability company, the entrepreneur generally cannot be held liable for more than the sum it contributed to the company's capital.

Legal types of business entities

Slovenian law allows foreign natural or legal persons to conduct their business under the condition of becoming its tax resident. Foreign undertakings must conduct their business activities through an entity registered in Slovenia, such as:

1. General partnership (d.n.o.)
2. Limited partnership (k.d.)
3. Double partnership
4. Joint-stock company (d.d.)
5. Limited partnership with share\ capital (k.d.d.)
6. Societas Europaea (SE)
7. Limited-liability company (d.o.o.)
8. Branch

The most common form of entrepreneurship is the *Limited-liability company (d.o.o.)* or *Joint-stock company*

(d.d.), where other forms are less common. There is also possibility of private individuals as sole trader or self-employer (s.p.).

It is obligatory to go through the court registration to obtain status of legal entity.

For international business, the *Limited-liability company* (d.o.o.) and the *branch* is most used. The *Limited-liability company* (d.o.o.) is incorporated by one or more shareholders pursuant to the execution of a notarial deed of incorporation before a notary public. Shareholders have limited liability to the extent of their paid contributions, the minimum share capital is EUR 7,500. The statutory body of the entity are the registered directors (one or more, director or procurator), who can be same as the shareholders, but in principle it can be anybody.

Many foreign companies make use of a subsidiary entity rather than a branch. The main legal reason to set up a subsidiary, instead of a branch, is limitation of liability. As a shareholder of a subsidiary, the foreign company's liability is basically limited to the extent of its capital contribution; whereas if the foreign company makes use of a branch, it is fully responsible for all the obligations and liabilities of the branch.

Process of how to set up a business

A *limited liability company* (d.o.o.) can only be incorporated by a notarial deed. A branch is incorporated by registration with the court register. Every establishment and changes regarding legal entities need to be reflected in the court register. Basic information regarding all legal entities and sole traders are publicly available on the portal AJPES (the Agency of the Republic of Slovenia for Public Legal Records and Related Service).

Financial year of taxes and financial accounts

The financial year is equal to the calendar year. However, legal entities may choose for a different financial year if they wish. The d.o.o. is subject to corporation income tax. The branch is

taxed with corporation income tax as well, but the parent company is liable to pay.

Accounting and auditing

A statutory audit is required when 2 out of the following 3 criteria are met:

1. Annual turnover > € 40 million
2. Total assets > € 20 million
3. Number of employees > 250

Economic and fiscal incentives

Slovenian policy on this field is dedicated to developing pro-active instruments to motivate the foreign investors who are interested in establishing or have already established legal entity in Slovenia.

It offers several incentive schemes in various sectors to support companies in their business operations. Foreign entrepreneurs who set up companies in Slovenia can also apply for several incentive schemes. Some are specifically dedicated for financing the micro, small and medium size enterprises.

Regarding the corporate tax, it offers the tax reliefs for investment. The tax base for corporate income can be reduced on the percentage of the amount invested in R&D, equipment and intangible long-term assets, employment of specific employee, etc.

Incentives for foreign investors/ local investors

Under the European EFRD (European Fund for Regional Development) programme for 2014-2020, different regions in Slovenia were conducting their own incentive policy. Within this programme the focus was on subsidizing projects on innovation and research, digital agenda, SME support and low-carbon economy. Currently in the making is the new programme for 2021-2027.

Taxation

The tax system in any given country is invariably an extremely important criteria when it comes to companies finding a country of incorporation. The

taxation in Slovenian is regulates in several different acts, according to the subject of taxations. Corporate Income Tax Act, Personal Income Tax Act were adopted in 2006 and had been since then the subjects to many amendments.

In that framework, it is possible to obtain advance certainty regarding the fiscal qualification of international corporate structures in the form of so-called Advance Tax Rulings. In addition, Slovenia has also signed tax treaties with many other countries to prevent the occurrence of double taxation.

The Slovenian tax system can be divided into taxes based on income, profit and assets.

VAT

The general VAT rate is 22%. On foods excluding beverages, pharmaceutical products, etc. the rate is 9.5%. Another reduced VAT is 5 % and it is available only for the sale of the e-books.

Personal income tax

Persons for income tax are residents and non-residents. The residents are liable for all the income derived in Slovenia plus income derived abroad. Non-residents are liable to income tax on income derived in Slovenia. The tax base for personal income tax purposes is divided into 6 categories:

1. Income from employment
2. Income from business
3. Income based on agriculture and forestry
4. Income from rent and lease
5. Royalties
6. Income from capital and other income

Income from capital, rental income and income from business are rated differently, for other income the tax rate is progressive.

Corporate income tax

Profit generated by companies of foreign investors located in Slovenia is taxed at 19% with the possibility of tax relief for the reduction of tax base.

Registration procedures

Private individuals (sole traders) and companies are registered with the tax authorities and are given a fiscal registration number. Tax statements can be submitted electronically or in paper form to the tax authorities. Communication with the tax authorities by way of tax returns and tax assessments is largely done in an electronic way.

Participation exemption

Specific rules allow dividends received by parent companies to be exempt from corporation tax. Similar rules apply to capital gains arising from the sale of shares owned by a parent company, where the partner company is the owner of at least 8% of the share capital of a company for a consistent period of at least 6 months and have employed for this period at least one employee for a full time.

Wage tax

Wage tax is a withholding tax and as such it is an advance payment on income tax. The tax rate depends on income. The basis and rates of wage tax is like the income tax for individuals. Higher income comes with increasing tax rates (progressive).

Withholding taxes

Payments to which this rule applies include payments for dividends, interest, copy rights, patents, licences, leases on real estate situated in Slovenia, services of performing artists. Withholding tax rate is 15%.

This rate could be changed accordingly to the provision of the ratified double taxation treaties.

HR/ Labour Law**Employment law**

An employment agreement may be agreed for an indefinite or fixed period of time. If an employment relationship for a fixed period of time is continued even after the end of the agreed date of termination, the employment relationship is automatically

transformed into the employment for an indefinite period of time. It is an obligation for the employer to be extra careful in such cases.

Contracts for a fixed period can be entered into for a maximum of 2 consecutive years, allowing both employer and employee to terminate the contract at the end of the agreed term. After 2 years, if the employer still needs the employee, they are obligated to enter into the employment relationship for indefinite period of time.

Social security

Participation in a social security program is obligatory. All employers are obligated to pay contribution to the Slovenian social security system for each of their employees. Social security contributions in Slovenia include contributions for pension and disability insurance, health insurance, employment and maternity allowances. The contributions are deducted from the gross salary at the same time as the employers withhold the tax.

Rates differ depending on the sector of business. Self-employed must pay contribution for themselves (obligatory) for each of the above stated insurance. Non-obligatory insurance policies can be taken from a number of national operating insurance companies.

Pension

The pension insurance as stated is covered by the social security payments. Employee must be insured for a minimum of 15 years and at least 65 years old to be able to receive the pension payments. Another possibility is to work for 40 years (the insurance period is 40 year) and at the age of 60 the employee can retire and starts receiving pension.

As this state insurance system is insecure for the future and is subject of numerous changes, many people take out an additional pension insurance. Many employers support this and offer pension insurance contributions as one of the employment benefits.

Payroll

When starting a business and employing staff, the company must register with the tax authorities, social insurance authority, health insurance authorities. Wage tax and social security is paid monthly to the tax authorities. The process of registration takes several weeks.

However, staff can be employed even if registration is not complete.

Visa and work permits

All EU inhabitants can work freely anywhere in the EU without a special working permit or visa. If an EU national from outside Slovenia is employed in Slovenia, he/she must register with the tax office and a personal tax identification number is allocated.

People from outside the EU must apply for a work permit before taking employment in Slovenia.

Contact us

The information provided in this guide cannot be exhaustive and we recommend anyone considering doing business in Slovenia should seek professional advice from our member firm before making any business or investment decision.

Contact our member firm in Slovenia to discuss your requirements:

Legal member

Law Firm Zupančič

www.zupanciclaw.si

Mag. Luka Zupančič

luka.zupancic@zupanciclaw.si

+ 386 (0)8205 1395

Nazorjeva ulica 6A
1000 Ljubljana
Slovenia

MSI Global Alliance
147-149 Temple Chambers
3-7 Temple Avenue
London EC4Y 0DA
United Kingdom

www.msiglobal.org