

DOING BUSINESS

IN SLOVENIA



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1 – INTRODUCTION

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in 100 countries throughout the world.

Business partners work together through the network to conduct transnational 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 business operations in Slovenia has been provided by the office of UHY representatives:

UHY d.o.o.
Vurnikova ulica 2
SI-1000 Ljubljana
Slovenia

Phone + 386 1 300 00 40
Website www.uhy.si
Email uhy@uhy.si

You are welcome to contact Franci Žgajnar (franci.zgajnar@uhy.si) for any inquiries you may have.

A detailed firm profile for UHY's representation in Slovenia can be found in section 8.

Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are 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 2020.

We look forward to helping you do business in Slovenia.

2 – BUSINESS ENVIRONMENT

Slovenia has a 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 60 minutes from Frankfurt, Munich and Zurich, and approximately 90 minutes from Paris.

Slovenia became an independent state in 1991 and in 2004 it became a full member of the European Union (EU). The country occupies a territory of 20,273km² and has a population of approximately two million.

Surrounded by four neighbouring countries (Croatia, Hungary, Austria and Italy), Slovenia is orientated westward. Slovenia also takes advantage of its familiarity with the languages and business culture of south-east Europe's former Yugoslavian republics.

In the past two decades, Slovenia has experienced steady and sustained economic development until 2009, when gross domestic product (GDP) fell by 7.8 %. After 2014 the yearly growth rate of GDP exceeded 3.0% in 2018 at the rate of 4.1 %. In 2019 GDP decreased to 2.4% due to economic development in major Slovenian trading partners (Germany, Italy, Croatia, Austria). Due to COVID-19 pandemic related effects to the global economy GDP is expected to fall in 2020 (-7.6%) and rise again in 2021 (4.5%).

The Slovenian economy is highly dependent upon overseas demand. Although in 2019, all service sectors generated more than 61% of Slovene GDP, the most important sector is still manufacturing (accounting for 20% of GDP).

By achieving over 73% of the EU (27) average GDP per capita in 2019, Slovenia has attained a position equivalent to a less advanced EU member country.

Slovenia is also a favourite tourist destination. The Slovene tourist industry represents approximately 5.3% of GDP.

Slovenia is located amidst three distinct European regions – the Mediterranean, Alpine and Pannonia – each leaving its own mark on Slovenia's countryside, which encompasses various geographies and cultural characteristics.

FACTS ABOUT SLOVENIA

| | |
|---|-----------------------------------|
| Area | 20,273km ² |
| Population | 2,095,000(1 January 2020) |
| Language | Slovene |
| Political system | Parliamentary democracy |
| Capital | Ljubljana (population of 292,988) |
| Currency | Euro (EUR) since 1 January 2007 |
| GDP per capita | US\$ 25,729 (2019) |
| GDP growth in 2019 | 2.4 % |
| Standardised rate of unemployment (ILO) | 9.2 % (june 2019) |
| Inflation rate (%) | 1.8% (2019) |

External trade

Exports (EUR million): 40,543(2019)

Imports (EUR million): 36,185 (2019)

Export/import ratio (%): 112.4 (2019)

Major trading partner countries (2019)

Exports – Germany, Italy, Croatia, Austria

Imports – Germany, Italy, Austria,
Switzerland

3 – 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. This means companies with foreign capital participation and companies owned by foreign entities registered in Slovenia enjoy the status of Slovene legal entities. Slovenia treats foreign and local companies the same and deals equally with both.

SECTOR RESTRICTIONS

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 by the competent authorities. Prohibitions apply 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 activities.

IMMOVABLE PROPERTY OWNERSHIP

Foreign individuals may own immovable property in Slovenia if it was inherited and respects the reciprocity principle. EU nationals may acquire real estate in Slovenia if they submit proof of a continuous three-year residence and by following the reciprocity principle.

Legal entities in foreign ownership, which are registered in Slovenia, are regarded as Slovene entities and are not subject to restrictions with respect to land ownership.

REPATRIATION OF PROFITS AND CAPITAL

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

FOREIGN DIRECT INVESTMENT

FDI STATISTICS: GLOBAL, EUROPE AND SLOVENIA

| REGION/ECONOMY | 2017 | 2018 | 2019 |
|--------------------------|-------|-------|-------|
| World | | | |
| FDI Inflows \$ billions | 1,700 | 1,495 | 1,540 |
| FDI outflows \$ billions | 1,601 | 986 | 1,314 |
| European Union | | | |
| FDI Inflows \$ billions | 465 | 415 | 446 |
| FDI outflows \$ billions | 511 | 345 | 455 |

Source: UNCTAD World Investment Report 2020

According to UNCTAD statistics Slovenia's portions of inward and outward FDI to gross domestic product have been far below the average in Europe and the global average.

Therefore, it is likely that the process of internationalization of Slovenian economy will be intensified in the forthcoming years.

SLOVENIAN INWARD FDI BY COUNTIES AND SECTORS

| December 31, 2018 | EUR million | % |
|---------------------|-------------|------|
| By Country | | |
| Austria | 3,632 | 24% |
| Italy | 1,192 | 8% |
| Luxemburg | 2,082 | 14% |
| Germany | 1,360 | 9% |
| Netherlands | 1,144 | 8% |
| Switzerland | 1,593 | 11% |
| Other | 4,149 | 27% |
| Total | 15,152 | 100% |
| By Line of Business | EUR million | % |
| Manufacturing | 5,362 | 35% |
| Commerce | 2,661 | 18% |
| Finance & Insurance | 2,923 | 19% |
| Other | 4,206 | 28% |
| Total | 15,152 | 100% |

Source: Bank of Slovenia (www.bsi.si)

EU Member States prevail among investor countries, accounting for vast majority of all inward FDI at the end of 2019. The most important of these investors is Austria, which accounted for 24% of all inward FDI. The stock of Austrian investors' FDI stood at EUR 3,632 million at the end of 2018.

OUTWARD FDI BY COUNTRIES:

| December 31, 2018 | EUR million | % |
|----------------------------|--------------------|-------------|
| By Country | | |
| Croatia | 1,951 | 32% |
| Sebia | 0,963 | 16% |
| North Macedonia | 0,524 | 9% |
| Russia | 0,356 | 6% |
| Other | 2,268 | 37% |
| Total | 6,062 | 100% |
| | | |
| By Line of Business | EUR million | % |
| Manufacturing | 1,917 | 32% |
| Commerce | 1,105 | 18% |
| Finance & Insurance | 0,806 | 13% |
| Other | 2,234 | 37% |
| Total | 6,062 | 100% |

Slovenia's outward FDI are orientated mostly to the Balkan countries, the republic of ex – Yugoslavia.

REASONS FOR INVESTING IN SLOVENIA

QUALITY WORKFORCE

Slovenia has educated workforce. The level of formal education attained by young people and adults remains an important factor for employability and reducing unemployment. Adult participation in lifelong learning is the factor in improving employability and foreign investors seeking a country for their brownfield or greenfield projects can count on government-sponsored schemes for the development of skills for their operations.

LINK TO REGIONAL MARKETS

Investors wishing to build a customer network in Europe's east and southeast by leveraging Slovenia as a gateway to the regional markets can benefit from expanding their business through Slovenia with its supportive environment and infrastructure.

INFRASTRUCTURE

Slovenia boasts infrastructure for inland transport of goods, modern port infrastructure, reliable electricity and gas supply and dependable internet connections. The development of the transport infrastructure and multimodal transportation calls for the modernisation of the existing infrastructure and the construction of new sections.

Both passenger and cargo traffic handled by three international airports is on the rise year-on-year.

Maritime transport and harbour traffic keep rising as the figures for goods carried and passenger and goods traffic show clearly. Port at Koper provides opportunity of supplying logistics and goods shipping services towards central and southern Europe. New container lines between the Far East and the Adriatic and the new Adriatic-Levant Loop 2 of Evergreen Line confirm the growing importance of northern Adriatic ports for shipping companies.

4 – SETTING UP A BUSINESS

The Slovene Companies Act provides for the establishment of companies and partnerships.

Types of company are as follows:

- Partnership:
 - Limited partnership
 - General partnership
 - Silent partnership
- Corporation:
 - Public limited liability company
 - Limited liability company
 - Limited partnership by shares.

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

REGISTRATION PROCEDURES

Registration procedures for companies are as follows:

- 1) Authorisation of the articles of association and appointment of managers by the Slovene notary public
- 2) Opening of an account with a selected local bank
- 3) Settling the founding capital
- 4) Application for entering into the register of companies (within 15 days of the agreement on incorporation adoption)
- 5) Registering the company with the Statistical Authority and the Tax Authority.

The registration procedures for the authorisation of the agreement on incorporation can 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 a 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 of incorporation.

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

- 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 a manager's and/or proxy's signature by the Slovene notary public
- The legalised agreement of incorporation.

5 – LABOUR

Foreigners who are granted work permits or other equivalent permits (international agreement permits) are allowed to undertake employment in Slovenia.

A work permit is granted when applied for by an employer. Such permits allow foreigners to undertake employment with the applicant employer.

A work permit is also granted to foreigners when the Slovene unemployment register is unable to offer an alternative worker for a position and the annual work permit quotas have not been met. Work permits are granted for the term of one year at most.

Work permits are granted to foreign executive workers with no regard to conditions of the labour market.

Foreigners may apply for a work permit by themselves. In these cases, they may take on 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 an indefinite term may be granted to a foreigner with a permanent residence in the Republic of Slovenia.

6 – TAXATION

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

The following organisations are exempt from tax:

- The Bank of Slovenia
- The Republic of Slovenia
- Municipalities
- Humanitarian, religious and ecological organisations.

Profits from overseas are not liable to duty if they were levied by a foreign corporate tax of no less than 12.5%.

The profit shown in a company's tax return represents the tax base. Losses may be carried forward without any time limitation. The straight line depreciation of tangibles and intangibles may be built into a company's costs. Since 2020, the reduction of the tax base due to the use of tax loss and R&D tax relief is recognized in the amount of 63% of the tax base.

The corporate income tax rate is 19%.

TAX INCENTIVES

Taxpayers are entitled to a deductible allowance equivalent to 40% of resources invested in equipment (except for office equipment and vehicles) and intangible fixed assets, and 100% of the amount used for research and development (R&D).

If such equipment and intangibles are to be sold within the term of three years of the year of granting the allowance, before the expiration of the stated period, the tax base must be increased for the amount of allowance in the year of the sale. Taxpayers are entitled to decrease the tax base for unused incentives in the next five years.

Tax losses from previous years may be used for the reduction of the tax base in successive years. The sum of the reduction should not exceed 50% of the tax basis in an individual year.

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

Taxpayers are entitled to decrease their tax base by the amount of the premium of a voluntary additional pension scheme. This amount is a maximum 24.35% of obligatory pension and disability insurance contributions paid by the employer, but no more than EUR 2,819 annually.

Taxpayers are entitled to decrease their tax base by the amount of a donation for humanitarian, religious, scientific, educational, sport, cultural or 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-month average salary. Cumulative allowances are not to exceed the sum of the tax base.

Slovenia has signed double taxation agreement with the countries listed in Table 1.

TABLE 1
Countries with a double tax treaty

| | | |
|----------------------|-------------|---------------------|
| Albania | Greece | Netherlands |
| Armenia | Hungary | Norway |
| Austria | India | Poland |
| Azerbaijan | Iran | Portugal |
| Belarus | Ireland | Romania |
| Belgium | Israel | Russia |
| Belarus | Isle of Man | Qatar |
| Bosnia & Herzegovina | Island | Serbia & Montenegro |
| Bulgaria | Italy | Slovakia |
| Canada | Japan | Singapore |
| China | Kazakhstan | Spain |
| Croatia | Korea | Sweden |
| Cyprus | Kosovo | Switzerland |
| Czech Republic | Kuwait | Thailand |
| Denmark | Latvia | Turkey |
| Estonia | Lithuania | UAE |
| Finland | Luxembourg | Ukraine |
| France | Macedonia | United Kingdom |
| Germany | Malta | United States |

PERSONAL INCOME TAX

Individuals subject to taxation include:

- Residents – on income sourced in Slovenia and abroad
- Non-residents – on income sourced in Slovenia.

Personal income tax sources include:

- Earned income
- Capital gains, dividends and interest
- Rents
- Income from proprietary rights
- Agricultural income
- Private business profits.

An individual's overall personal income tax base is the aggregate value of tax bases from the above-mentioned sources, except for income from capital gains, dividends, interest and rents.

The tax rate is 16% (at the minimum) up to 50% (maximum), depending on the tax bracket of the individual taxpayer.

EARNED INCOME

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

Residents and non-residents receiving income in Slovenia, as well as residents working in Slovenia and receiving income from abroad, are subject to taxation.

Salary or other job-related revenues paid out in money or fringe benefits represent the tax base.

2020 income tax reliefs are as follows:

- General income tax relief (EUR 3,500 and more for annual income under EUR 13,317)
- Tax relief for dependent family members (EUR 2,437 for the first child, EUR 2,649 for the second, EUR 4,419 for the third,)
- Disabled persons (EUR 17,658 for 100% disability)

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

CAPITAL GAINS, DIVIDENDS AND INTEREST

Residents and non-residents are subject to taxation if they receive capital gains in Slovenia from selling real estate, securities or other capital shares at a profit. Since 2020, the tax rate is 27,5%, but decreases if the investment has been held for a long-term period:

- Less than five years – 27,5%
- 5–9 years – 20%
- 10–15 years – 15%
- 15–19 years – 10%
- 20 or more years – 0%.

Income from bank interest is taxable if the amounts exceed EUR 1,000. Since 2020, the tax rate is 27,5%.

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 foreign legal entities are not liable to pay the capital gains tax on share transactions in Slovenia.

RENTS

Residents and non-residents are subject to taxation when revenue from renting real estate or moveable properties is received. Since 2020, the tax rate is 27,5%.

Real estate income diminishes by 15% of standardised expenses or by the actual maintenance costs of the real estate in the fiscal year. The effective tax rate is dependent on the individual investors' marginal tax rate computed after filing the tax report.

INCOME FROM PROPRIETARY RIGHTS

Residents are subject to taxation when revenues from copyrights, inventions, distinctive marks and technical improvements in Slovenia or overseas are received. These revenues are taxed at 27,5% (since 2020). The tax base diminishes by 10% of standardised expenses or by actual costs. The effective tax rate is dependent on the individual investors' marginal tax rate computed after filing the tax report. The income from proprietary rights 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 contributions.

PROPERTY TRANSFER TAX

The property transfer tax is equivalent to 2% of the contracted price and is paid by the selling party if not agreed otherwise.

VALUE ADDED TAX

Value added tax (VAT) is charged, levied, collected and paid in respect of the supply and import of goods and services. Under the VAT Act, the usual tax rate is equivalent to 22% and reduced to 9.5%. From 1 January 2020 VAT rates for the supply and rental of books, newspapers and periodicals on both physical and electronic media will be reduced from 9,5% to 5%.

The following are liable for VAT at the reduced 9.5% 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
- Copyright and art
- Housing and buildings services.

The following are liable for zero-rated VAT:

- Medical services
- Social security services
- Education, sports and religious services
- Political and humanitarian activities
- Certain cultural services and the like.

Provisional imports are also zero-rated.

EXCISE DUTIES

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

7 – ACCOUNTING & REPORTING

Companies operating in Slovenia are obliged to keep records and prepare annual financial statements in accordance with the Slovene Accounting Standards issued by the Slovene Institute of Auditors.

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 EU. Companies listed on an organised security market in the EU must prepare consolidated financial statements in accordance with International Standards of Financial Reporting.

Business organisations which must have their financial statements audited are defined under the Companies Act. The Slovene auditing profession has fully adopted the International Standards of Auditing.

According to Slovene company law, compulsory auditing applies to:

- Large and medium-sized public limited liability companies
- Large 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 (where at least two items of specified criteria must be realised):

- A medium-sized company must have:
 - 50–250 employees
 - A total turnover of EUR 8,000,000–40,000,000
 - Assets at year-end of EUR 4,000,000 –20,000,000
- A large company must have:
 - Over 250 employees
 - A total turnover over EUR 40,000,000
 - Assets at the year-end more than EUR 20,000,000.

REPORTING PERIOD

Personal income tax returns have to be filed to the tax authority no later than 31 March of the current year for the previous year.

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

8 – UHY REPRESENTATION IN SLOVENIA



CONTACT DETAILS

UHY d.o.o.
Vurnikova 2
Ljubljana
Slovenia
Tel: +386 1 300 0040
Fax: +386 1 300 0050
www.uhy.si

Year established: 1993
Number of partners: 2
Total staff: 6

CONTACTS

Liaison contact: Franci Žgajnar
Position: Partner
Email: franci.zgajnar@uhy.si

BRIEF DESCRIPTION OF FIRM

UHY d.o.o. is a top 10 Slovenian auditing practice. We provide audit, tax advisory services, business valuation and other consulting services with specialised knowledge in the financial sector.

SERVICE AREAS

Audit
Corporate and personal tax
VAT consultancy

PRINCIPAL OPERATING SECTORS

Paper industry
Motor trade
Wood processing
Advertising
Manufacturing of technical products made of elastomers and thermoplastics
Construction
Food industry
Public transport and mobility
Retail
Gaming

LANGUAGES

Slovene, English, Serbo-Croat.

CURRENT PRINCIPAL CLIENTS

Nomago (public transport, mobility)
Alples (furniture manufacturer)
Avto Aktiv Intermercatus Ltd (BMW car trader)
Medex (food supplements producer)
Bauhaus, Slovenijales (retail stores)
Jelovica (wood processing)
Športna loterija (arranging of games of chance)



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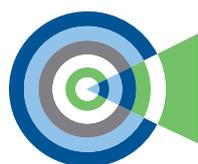


OTHER COUNTRIES IN UHY CURRENTLY WORKING WITH, OR HAVE WORKED WITH IN THE PAST

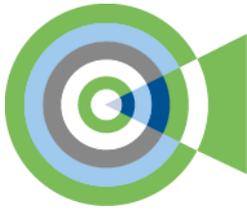
UK, Germany, Croatia, Serbia, Italy

BRIEF HISTORY OF FIRM

Three separate partnerships, all originally established in 1993, merged into Constantia MT&D in 1998. After joining UHY in 2001, the firm changed its name to UHY Constantia. In 2005, one of the partners was replaced and the firm was renamed as UHY Ltd (d.o.o).



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LET US HELP YOU ACHIEVE FURTHER BUSINESS SUCCESS

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