AmCham Slovenia Finance Committee Position Paper

Finance Committee

July 2024

AmCham Slovenia
FINANCE
COMMITTEE

1. Labor taxation

1.1. Introduction of the social development cap: a ceiling above which social security contributions are no longer payable

Slovenia is a country with a high standard of living, and improvements are needed to sustain such high standards, as labor is overtaxed in Slovenia relative to other similar countries. Labor costs are one of the main criteria for assessing whether investors will choose to invest in Slovenia and set up their knowledge and development centers in the country. They also affect the competitiveness of Slovenian companies involved in high-skilled activities.

For several years now, economists and tax professionals have been calling for the **introduction of a social development cap** on pension and health insurance contributions. This is a necessary **investment** for Slovenia if we want to remain/become a country where our companies can develop cutting-edge products and services, and a country that enables young people to remain and work in their home country doing high-skilled jobs, and for international companies to make such jobs possible by opening development centers. Most countries in Central Europe, which can serve as a model for us, have already introduced a social development cap. In Austria and Germany, for example, it is set at 1.8 times the average salary, yet these countries continue to maintain generous social policies.

We propose a social development cap at 2 times the average gross salary, i.e. at EUR 4,600 gross. We believe this would cover all the main professions that drive development – engineers, scientists, developers, professors. This includes, of course, professionals such as managers and doctors, who have invested significantly in their knowledge and skills and are highly mobile internationally. The social development cap is also a signal to overseas professionals that our tax environment is competitive, as we "compete" for talent with comparable countries. This is **an important step toward a better business environment and thus greater competitiveness for Slovenia**.

With a social development cap, talents of all ages would earn higher net salaries, increasing their motivation to stay and work in Slovenia. The fact is that fewer employees adding value with their skills means fewer good products in Slovenia, reduced earnings, lower salaries, decreased tax revenues for public coffers and less money for public sector salaries, pensions, healthcare and education. Countries with the highest levels of solidarity are well aware of this and compete for such workers.

The companies that drive development employ mainly highly skilled staff. However, the higher the level of education, and therefore the higher the pay grade, the higher the social security contributions payable, because there is no upward limit on these contributions. Companies employing a higher share of higher-educated people therefore have much higher labor costs, which has a negative impact on their competitiveness and ultimately leads to lower revenues. As the Slovenian economy is predominantly export-oriented, this has negative consequences for the export competitiveness of Slovenian companies compared to competitors from countries where such a cap is in place.

Talented individuals are leaving Slovenia in search of better job opportunities, which is particularly evident in border areas and among young professionals. Due to high labor costs, companies prefer to invest in countries like Slovakia, Romania, Ireland, and Croatia rather than setting up centers of excellence or development laboratories in Slovenia.

The social development cap is essential for a prosperous future, serving as one of the most important social development measures and pathway out of the crisis that will stimulate new investment, retain high-skilled jobs and attract talent and international professionals. We have waited too long for this policy shift and have missed out on important opportunities. So it is high time the social development cap is introduced, as it will enhance Slovenia's export competitiveness, attract domestic and foreign investors, and build a society rooted in its own knowledge and development.

1.2. Widening income tax brackets

Current income tax rates and tax brackets are as follows:

If the net annual tax base is (in EUR)		Income tax is (in EUR)	
From	To		
	8,755.00		16%
8,755.00	25,750.00	1,400.80	+ 26% above 8,755.00
25,750.00	51,500.00	5,819.50	+ 33% above 25,750.00
51,500.00	74,160.00	14,317.00	+ 39% above 51,500.00
74,160.00		23,154.40	+ 50% above 74,160.00[1]

Slovenia's high tax burden on labor income is driven by above-average employee social security contributions. Additionally, with a relatively low income threshold, the highest income tax bracket imposes a 50% tax rate.The size of the tax burden on labor costs payable by the employer is also measured by the tax wedge (which is the total percentage share of income tax and employer and employee social contributions, less family allowances received as cash transfers, in the total labor costs payable by the employer for the employee). Slovenia ranks above the OECD average and more developed European countries on most tax burden indicators.[2]

Slovenia has the 9th highest tax rate in the EU (at 50%).[3] The maximum tax rates of 39% and 50% are still comparable to the average EU income tax rate; however, the annual tax bases by tax bracket are relatively low: the 39% tax bracket is reached with an annual gross salary exceeding EUR 72,528.88, which is (taking into account only general tax relief) a net tax base of EUR 51,500 and an annual net salary of EUR 42,183.00.

The table below illustrates the taxation of salaries ranging from EUR 2,500 to EUR 5,500 gross, typical for highly educated workers (e.g. engineers and developers). These are the professionals Slovenia aims to attract and employ in significant numbers in the future.

Gross salary (in EUR)	Total cost to the employer (in EUR)	Net salary (in EUR)	Net salary as a share of total cost to the employer
2,500.00	2,902.50	1,596.55	55%
3,500.00	4,063.50	2,163.97	53.25%
4,500.00	5,224.50	2,685.90	51.41%
5,500.00	6,385.50	3,207.83	50.24%[4]

The table shows how the share of net salary in the total cost to the employer falls, reaching approximately 50% at a salary of around EUR 5,500 and falling to less than 50% at higher salary levels. This means that for a salary above EUR 5,500, less than half of what the employer pays out goes to the employee and more than half goes to the state.

[1] Source: https://www.fu.gov.si/fileadmin/Internet/Davki_in_druge_dajatve/Podrocja/Dohodnina/Letna_odmera_dohodnine/Opis/Lestvica_za_leto_2024.docx
[2] Source: https://www.umar.gov.si/fileadmin/user_upload/publikacije/Porocilo_o_produktivnosti/2023/PoP_2023s.pdf (pp. 75, 76)
[3] Source: https://taxfoundation.org/data/all/eu/top-personal-income-tax-rates-europe-2024/
[4] Source: Lestvica_za_leto_2024.docx (live.com)

Comparing net pay with the Slovenian average gross salary of EUR 2,200 reveals that in seven Central European countries, the average monthly remuneration for employees is EUR 145 higher, or EUR 290 higher if the salary level is raised to EUR 4,000 gross. Slovenia ranks 42nd out of about 60 countries in the competitiveness ranking, trailing both the larger European countries and the smaller Scandinavian and Baltic countries.[5]

As Slovenia aims to generate new jobs, especially high-skilled jobs, it is essential that the salaries of these employees are freed up so that the employee receives more than half of the amount paid by the employer.

[5] Source: https://glasgospodarstva.gzs.si/ugodna-davcna-politika-bi-spodbudila-gospodarsko-rast-in-tuje-investicije/

2. Proposed measures to increase tax and financial certainty for businesses

Successful and responsible businesses want to know exactly how much tax and other levies they will have to pay. The amount of levies paid impacts business performance and plays a crucial role in making business forecasts, which in turn affect how managers are rewarded.

In January 2023, an amendment to the Income Tax Act (ZDoh-2AA) came into force, which, among other things, lowered the general tax allowance compared to the previous amendment (ZDoh-2Z), eliminated inflation-adjusted allowances (resulting in effectively lower net salaries for all due to high inflation), increased taxation for highly educated people, made it more difficult to own businesses internally, and notably exacerbated the social challenges faced by farmers in areas with limited farming opportunities. Because we want working people in Slovenia to be taxed fairly and to have a tax system that does not change from one year to the next, AmCham Slovenia, as part of the Gospodarski krog (Business Circle), which comprises 15 economic and agricultural organizations, has backed the National Council of the Republic of Slovenia in it’s appeal to the Constitutional Court for a review of the new law. We are still awaiting its decision.[6]

Business confidence could be improved by the measures set out below:

2.1. Abolition of transfer pricing fines

The fines prescribed by the Tax Procedure Act are used to punish various tax offences, including transfer pricing offences. However, transfer pricing is one area of taxation where there is no one-size-fits-all rule. The legislation does not specify how transfer pricing should be conducted or in what specific amounts. Even if the tax authority makes adjustments to transfer pricing during a tax audit, it does not necessarily imply that the initial transfer pricing was incorrect.Therefore, we propose that, following the example of several other countries, companies should not face fines for their use of transfer pricing. The tax authority has the ability to adjust the tax base, potentially increasing the amount of tax owed and charging corresponding interest. However, we believe that the imposition of fines grants the tax authority excessive discretion, which could be exploited in a highly detrimental manner.Such tax practices are implemented, but it is left to the financial inspector to impose penalties, thereby introducing uncertainty into the system. We propose that this be clearly written into the Tax Procedure Act.

2.2. Abolition of the obligation to provide related party documentation

Slovenian taxpayers frequently lack documentation for related parties (e.g. a sister or other related party not established in the Republic of Slovenia). In practice, Slovenian taxpayers often encounter requests from financial authorities to provide information they do not possess. For instance, they may be asked for details like the purchase value of goods from the Netherlands, which they have no control over despite their best efforts. This situation raises questions about whether the group is willing to share such information at all.In addition, some countries explicitly prohibit the exchange of such information between taxpayers. On the contrary, such information can be obtained by a financial authority in the context of an international exchange of information with the competent authorities in the foreign country.

In addition, failure to provide the required information results in the issuance of a payment order, i.e. an administrative procedural sanction against the legal entity and the legal entity's representative. In practice, these fines are imposed months or even years after the conclusion of the relevant tax audit.This is a clear indication that the main objective of the fines in question is to unduly penalize the taxable person and the taxable person's representative for conduct in proceedings that have already been concluded. This clearly contradicts the intended purpose of fines for failure to submit documentation during proceedings before the tax authorities.As a consequence, we propose that Article 40 of the Tax Procedure Act be repealed.

[6] Source: https://www.sta.si/3276292/gospodarski-krog-poziva-ustavno-sodisce-k-odlocitvi-glede-dohodnine

2.3. Duration of tax audits (and tax monitoring)

The Tax Procedure Act stipulates that no more than six months (or nine months in the case of a transfer pricing inspection) may lapse between the start of a tax audit and the issuance of a ruling. However, such deadlines are merely advisory and, consequently, not binding on the tax authority. Given the lengthy nature of audits (they can take several years!) and the fact that sometimes several months or even a year pass between the initial audit appointment and the serving of the tax inspection ruling, we propose that binding deadlines for the tax authority be clearly defined.

3. Proposed measures to create a more favorable tax environment for investment

One of the primary goals of the tax environment is to foster conditions that enhance Slovenia's competitiveness in global markets. This is achieved by promoting foreign investment and supporting economic growth.We propose maintaining the research and development investment allowance, retaining the investment allowance at 40%, and reducing the taxation of dividends. These measures would enhance the attractiveness of capital investments.

In addition, we propose two new measures that could boost incentives for investors in our tax system.

3.1. Simplification of procedures for establishing tax residency for individuals

Supreme Court ruling no. X Ips 124/2015 of June 11, 2015, introduced a great deal of uncertainty into the procedure for establishing tax residency and, in practice, prolonged the duration of this procedure. The new practice is felt most by individuals who hold senior management positions in international companies and perform roles at regional level, as well as by those who would like to work abroad and would like to put their tax affairs in Slovenia in order before they leave.

The Supreme Court's ruling deviates from previous case law. It took the view that residence status for the purpose of claiming the benefits of double taxation conventions should not be determined in advance, i.e. before rights under bilateral double taxation conventions are exercised. Under the new rules, if a taxpayer wants to exercise their rights under the relevant convention, they will have to submit the relevant application, i.e. a tax reduction or exemption form. They will therefore only be able to exercise their rights under the convention in relation to the specific income that is paid to them. The Slovenian tax authority will consider this application and assess whether the taxpayer is also considered a Slovenian resident for the purposes of the convention. If both countries were to consider the taxpayer as their own resident for the purposes of the convention, double taxation could arise, which could only be resolved through a of mutual agreement procedure between the two countries.

In practice, this may lead to double taxation and prolong the duration of procedures, raising the question of the rationality of such procedures. Therefore, we propose that the Ministry of Finance explore methods to streamline and expedite the process of establishing tax residency. We also recommend providing clearer guidance and a more transparent framework for decision-making by the tax authority, particularly during transition periods when individuals have already left Slovenia and their families may join them later for any number of reasons (schooling, health issues, etc.). As a result, they return to Slovenia, but not with the intention of taking up residence. Clear guidance on the specific documents and information expected by the Slovenian tax authority (FURS) from individuals initiating the process of establishing tax residency would be highly beneficial.

Clear rules and expectations from FURS leads to greater legal certainty and increases taxpayers' confidence in the tax system. Accelerated and more transparent procedures enhance Slovenia's competitiveness, as foreign companies will find it easier to transfer regional functions to Slovenia.

3.2. Tax incentives to reward employees and encourage the growth of innovative and high-growth companies

Simplified employee remuneration from company profits, in the form of ownership (shares or options) or cash schemes, would provide the right incentives for companies to strengthen employee ownership of their business. By doing so, companies can boost the loyalty of key employees, focus on long-term strategies, and achieve higher growth while reducing staff turnover.[7] This would create a more stable business environment, which would increase the attractiveness of Slovenia as a destination for foreign investment. Increased corporate stability, attractiveness to highly skilled workers, and the promotion of long-term growth and innovation are key factors that would attract foreign investors.

The Ministry of Finance has proposed wide-ranging changes to tax legislation, which are currently under public consultation. These changes include reducing the tax burden on employers for share and option-based remuneration, while shifting the tax burden to employees. This proposal aims to enhance the appeal of share-based remuneration, which would prove especially beneficial for innovative start-ups.Although the proposal reduces costs for employers, it creates an additional administrative burden by shifting the tax burden to employees. Innovative start-ups stand to gain from a more favorable options regime, yet the proposal could be broader and more explicitly focused on simplifying and reducing taxation to provide stronger incentives for employee rewards.[8]

The Committee sees another possible improvement in terms of the tax treatment of performance-related pay. In Slovenia, performance-related pay is a bonus that is exempt from taxable employment income up to 100% of the average monthly salary of employees.In the past, the average salary of the employee in the preceding year, if higher, could also be taken into account when limiting the amount of performance-related pay excluded from the tax base, but this provision has been removed by the latest amendment to the Income Tax Act (ZDoh-2AA).[9] This measure could reduce the tax burden on employees and increase the incentive to reward performance, as there can be a large gap between the average Slovenian salary and the salary of an individual employee, especially for more highly educated staff. This would allow performance-related rewards to be treated more fairly, according to the actual level of remuneration of the individual, which could further motivate highly qualified professionals to perform better.

[7] Source: https://glasgospodarstva.gzs.si/predlog-mini-davcne-reforme-v-sedmih-korakih-do-visje-dodane-vrednosti/
[8] Source: https://si.bloombergadria.com/ostalo/davki/59676/bo-nagrajevanje-z-delnicami-privlacnejse/news
[9] Source: https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina/2022-01-4017

4. Proposed measures to restore pension system sustainability and boost productivity

4.1. Pension system sustainability and productivity gains

Under current pension legislation, the pensions for employees retiring in the near future will be 63.5% of average net earnings, which is not sufficient to maintain a decent standard of living in retirement.Pension-related expenditure in Slovenia already accounts for 10% of GDP today and is projected by the OECD to reach 15.7% of GDP by 2050. Therefore, it is unrealistic to expect the state to allocate additional resources to sustain pensions at current levels in the face of a growing number of pensioners, let alone to ensure that they reach a decent level.

In Slovenia, GDP growth is mainly driven by an increase in labor, while real productivity growth remains modest. With demographic trends projecting an aging population, more will need to be done in the future and we must work to raise productivity to the level of the EU's leading innovators. "Over the last decade, the population in the 20 to 64 age group has fallen by 67,000, and projections taking into account net migration show a further 43,000 fewer people by 2030 and 119,000 fewer by 2050 than in 2022."[10] The answer to increasing productivity lies in, among other things, the use of generative artificial intelligence, which "can already be applied to areas such as articulation, reasoning and communication, coordination, working with ideas, and design."[11]

4.2. Tax relief for the development of the second pension pillar

Slovenia has a modern three-pillar pension system: in addition to the first public pillar, the second and third pillars – voluntary supplementary pension insurance – have been in place for 22 years. After rapid growth in the early years, this has stalled, partly due to poor state support. Today only half of the working population is participating in supplementary saving. In many developed countries, from the US to the UK and Australia, declining public pensions have been replaced by supplementary pensions, providing employees with decent levels of income at retirement, made up of public and supplementary pensions. At the same time, they have ensured the long-term stability of public finances. In addition to more active promotion of the need for additional savings, we propose the following tax measures:

- **A.** Increase the current tax deduction of a maximum of 5.844% of an employee's gross salary (with an absolute annual limit of EUR 2,903.66 in 2024[12]) to at least 10% of gross salary.
- **B.** At the same time, abolish the absolute limit on the amount of tax relief (currently EUR 2,903.66 per year) and fully exempt the pension annuity from income tax (currently 50%).
- **C.** Employers who sponsor collective pension plans are allowed to carry forward unused tax relief on supplementary pension contributions (currently, it is only possible to use corporation tax relief equal to the employer's annual contributions for the current year).
- **D.** The tax relief applies to individual and collective supplementary pension schemes simultaneously, which means that an employer can contribute up to the maximum amount to an employee's collective pension plan, while at the same time the employee can contribute up to the maximum amount individually and also benefit from the tax relief.
- **E.** Removing the current restrictions on the withdrawal of savings from collective supplementary pension insurance, where so-called accelerated annuities can no longer be paid out for some savers, as well as allowing partial withdrawal of savings in the form of a lump sum on retirement, and allowing annuities to be offered with no guarantee of yield, which would allow a wider range of products for savers to choose from.

[10] Productivity Report 2023, p. 17
[11] Productivity Report 2023, p. 100
[12] Source: https://www.fu.gov.si/fileadmin/Internet/Davki_in_druge_dajatve/Podrocja/Dohodnina/Letna_odmera_dohodnine/Opis/Lestvica_za_leto_2024.docx

In the light of the above proposals, it would be necessary to initiate a dialogue with all stakeholders on the introduction of compulsory automatic enrollment in pension plans for all employees who are not currently enrolled, as this measure has already been shown to significantly increase participation in pension plans in a number of countries, most recently in the United Kingdom, Poland and Slovakia, and this positive experience should be adapted and tailored to our own system.

The development of a second pillar of pensions, represented in Slovenia by the Voluntary Supplementary Pension Insurance, which has been in place since 2001 and today covers about 60% of all employees, is essential for the sustainability of the pension system. The second pillar will not only enhance employees' retirement pensions but also increase the amount of savings reinvested into the economy, thereby making a significant contribution to the development of Slovenian capital markets.This will increase access to capital for domestic firms, lowering their cost of borrowing and making them more competitive, which can lead to growth and jobs.

4.3. Raising the retirement age

Pillar 1 is the predominant pillar of pension financing in Slovenia, accounting for 10% of GDP annually. The total resources related to the investment pillar (Pillar 2) account for 5% of GDP. Slovenia has the fourth highest pension and disability insurance contribution rate among OECD countries, and at 16% of GDP, the total amount of all social contributions is almost twice as high as in OECD countries. High economic growth and record employment have had the effect of raising the contributor-to-beneficiary ratio, but this is likely to be transitory. A higher number of retirees and fewer new entrants into the workforce will strain pension funds, potentially hindering the influx of foreign labor into the workforce.In Slovenia, the average retirement age is two years lower than in OECD countries – and is not expected to rise.[13]

4.4. Adjusting pensions in line with inflation only

Transitioning pensions from being indexed to wages and inflation to solely inflation could enhance the sustainability of pensions.Slovenia is projected by the OECD and the EC to have high growth in pension expenditure as a share of GDP after 2030, which is why we need to adopt pension reform that is fiscally sustainable.[14]

[13] Source: https://www.gzs.si/mediji/Novice/ArticleID/85640/za-vzdrzen-pokojninski-sistem-nujna-prenova-drugega-in-uvedba-tretjega-stebra
[14] Source: https://www.gzs.si/mediji/Novice/ArticleID/85640/za-vzdrzen-pokojninski-sistem-nujna-prenova-drugega-in-uvedba-tretjega-stebra

5. Long-term care should not be an additional burden solely placed on employers

Under the new Long-Term Care Act, the employee contributes 1% of gross earnings, the employer contributes 1% of gross earnings, and the individual contributes 1% of their gross pension. We emphasize that introducing the new levy would further escalate the burden on labor in Slovenia, which already exceeds the average salary and ranks among the highest in the European Union.Additional labor pressure is therefore unacceptable. Reserves must first be found by streamlining the health and long-term care system. When it comes to the financing of long-term care, we can refer to good practices in some comparable EU countries. In Germany, for example, a public holiday was abolished to fund long-term care, with contributions and taxes collected from this day earmarked to fund it. The Federal State of Saxony opted not to abolish the public holiday, which resulted in an arrangement whereby employees pay a higher percentage of the long-term care contribution than employers.[15]

It should not be forgotten that as workloads increase, the underground economy and the search for other ways of circumventing the system grow, and the end result may be even worse than before the new burdens.

[15] Source: https://www.gzs.si/mediji/Novice/ArticleID/86345/dolgotrajna-oskrba-da-a-ne-na-plecih-delodajalcev

6. Bogus self-employment

The vision

- We believe that Slovenia's future lies in the **knowledge economy**.
- For the knowledge economy, **highly educated people** (IT specialists, programmers, data scientists, specialists in artificial intelligence, machine learning, etc.) are **strategically important**.
- It is in Slovenia's strategic interest to develop and retain these people in the economic system – we are currently facing huge outflows of this kind of talent from the system (though not necessarily from the country itself).

The problem

Due to inadequate legislation, the current situation encourages highly-skilled professionals in high-tech companies, and more broadly, to shift from traditional employment to what is termed as bogus self-employment. This transition comes with exceptionally favorable tax treatment, where individuals may only pay 5% tax (instead of the typical 40-60%).In any case, when regulating the status of the self-employed, particular attention should be paid to the distinction between the self-employed – those who hold compulsory social insurance as a result of their activity and who sell their products or services to different customers – and the bogus self-employed – those who work for a single employer and who are in unfair competition with those in regular employment.

Importance of the knowledge economy for Slovenia, Europe and the world[16]:

- In Europe, the gap between demand and supply for high-tech skills is around 500,000 jobs.
- New jobs created account for around 40% of the number of new entrants.
- The value of European technology companies is now four times higher than it was five years ago, at EUR 618 billion in 2020.
- In 2020 alone, the value of European technology companies increased by 46%.
- 2 million employees in EU tech companies in 2020 (43% more than in 2016).
- At this growth rate, EU technology companies will employ up to 3.2 million people by 2025.
- 73% of European tech jobs are created by 4,900+ start-ups.
- The pandemic has further expanded the labor market, as remote working is the new normal – the opportunities are global.

Consequences for the Slovenian economy if no action is taken

1. Slovenian companies are at a disadvantage in attracting this type of personnel, which could have long-term repercussions for Slovenia's competitiveness and the added value we can generate.
2. The top experts will work independently, as bogus self-employed. Their knowledge will not be transferred, as they will work mostly or exclusively for a single client, resulting in a negative impact on economic development and business start-ups.
3. Slovenia will not be an exporter of high technology. The best talent will sell their individual services to predominantly foreign companies with a 5% tax rate (the tax haven incentivizes an accelerated virtual exodus of key personnel abroad).
4. A suboptimal environment for venture capital, crucial for fostering innovation and developing new industries.
5. Lost tax revenue and an unfair system that undermines trust in the state (especially among the aforementioned highly-skilled, who are well aware of the opportunities to game the system).

[16] Source: SURS, Finance, Finance Manager, Not Optional, Hosting Tribunal, OECD, EIB, World Bank

Proposed solutions:

- More rigorous inspection (Labor Inspectorate) and **supervision by FURS** (detecting cases of undeclared self-employment).
- **New legislation** to discourage individuals from abusing the sole proprietorship (SP) status – complementing existing labor law: sanctioning the worker (and not just the employer) for misconduct.
- **New regulation**: a new status (sub-category of SP) + a new taxation system for this type of worker.

Changes to the tax treatment of standard deduction sole proprietors

The amendment to ZDoh-2, which relates to the proposal for amendments for standard deduction sole proprietors, treats employees who have compulsory social insurance as a result of their activity in a uniform way, regardless of whether they are bogusly self-employed or whether they market their products or services to a large number of customers.

Slovenian social culture is not supportive of entrepreneurial risk-taking, and the potential failure as a result. Therefore tax-legislative changes should not unduly restrict the ecosystem of Slovenian start-ups, the supportive environment and the competitive conditions for the creation, growth and survival of Slovenian start-ups, by treating all sole proprietors equally.[17]

For this reason, the Committee proposes a categorization according to the different levels of entrepreneurial initiative and the business risks associated with each level:

- For the so-called "afternoon" self-employed in Slovenia, lowering the eligibility threshold for the standard deduction self-employed scheme would be appropriate as it will bring a better balance between full-time regular employment and at the same time allow employees to engage in leisure activities, but not at the expense of regular employment;
- For the bogusly self-employed who work for one employer or for persons related to a single employer, changes introduced under the amendment to ZDoh-2 (lowering the maximum limit for participation in the system of standard deduction sole traders and raising the limit for the recognition of standardized expenses) are also appropriate;
- For normal employees who have compulsory social insurance as a result of their work, the Committee proposes to maintain the current regime, which has already been amended for the previous tax year by the amendment to ZDoh-2AA.

[17] Source: https://www.startup.si/Data/Documents/Slovenska_startup_strategija.pdf

7. Electronic payments

7.1. The Slovenian context and its positioning

Slovenia has a relatively high level of activity in the informal economy. Cash, the use of which was proposed to be enshrined in the constitution at the end of last year,[18] is still the predominant means of payment, and the infrastructure for accepting electronic payments is relatively underdeveloped. At the point of sale, 73% of transactions by private individuals are made using cash, making Slovenia the third most cash-intensive country in the EU. People should be given a choice of payment methods, including digital payment, as both local and foreign consumers expect to have a choice of payment options and the option of paying electronically. A comprehensive program for the development of payment infrastructure needs to be launched in order to stimulate card acceptance in Slovenia and to introduce new technologies and affordable and smart solutions to the market.

7.2. Why is this good for the country?

There are two key ways in which the government can get involved in enhancing the electronic payment infrastructure in Slovenia: (1) by encouraging cashless payments, and (2) by making it compulsory to accept cashless payments. The government should actively promote the use of cashless payments by both consumers and businesses. Legislation should require all businesses operating cash registers to offer consumers at least one electronic payment option, giving consumers a choice that meets their needs.

Increasing the number of cashless payment options has multiple benefits for the government, the economy, and society at large: tackling the informal economy and consequently increasing tax revenues, increasing the competitiveness and efficiency of the economy, higher levels of consumer satisfaction, etc. A number of European countries have already introduced mandatory digital payment acceptance laws, including Italy, Hungary, Belgium, Cyprus, Greece, Romania and others.[19]

7.3. Anomalies in electronic payments

For a long time, stakeholders in the financial industry have been pointing to discrimination in terms of regulatory requirements in relation to the prevention of money laundering and the financing of terrorism between Slovenian providers of payment services and foreign providers, who, due to the loosening of local legislation, are also flexing their competitive muscle in the Slovenian market.

ZPPDFT-2 unjustifiably excludes payment institutions and electronic money issuers from third party customer screening. This limits new innovative digital business models in favor of traditional banks and savings institutions.

The amendment to the law now links electronic identification exclusively to a valid means of electronic identification. As the government is planning to issue an electronic identity card at the same time, this and other legal changes will have a number of implications. Initially, electronic ID de facto eliminates the established trust service providers and removes a large spectrum of legal impacts from their digital certificates for electronic signatures. At the same time, the law does not foresee a sufficiently long transition period, as the introduction of the electronic ID card will only give citizens the opportunity to acquire it and use its new e-commerce capabilities. But given the 10-year validity of the ID cards, this replacement process will be slow. The amendment is necessary to avoid a situation in which some 100,000 digital certificates issued will cease to have the essential legal effect of acting as a means of identification, and only a few thousand people will have a new electronic identity card. This will cripple digitalization projects in the financial industry, healthcare, education and digital administration for several years.

[18] Source: https://www.rtvslo.si/slovenija/kaksna-bo-usoda-gotovine-v-sloveniji-o-vpisu-uporabe-v-ustavo-se-strokovna-skupina/707655
[19] Source: https://www.delo.si/delov-poslovni-center/mobilnost/v-sloveniji-ne-moremo-digitalno-placevati-povsod-kjer-bi-zeleli

7.4. Tax on financial services

Slovenia is one of the few countries that still imposes an additional tax on financial services, the so-called financial services tax, which puts Slovenian providers of payment and financial services at a disadvantage compared to other providers licensed in other EU countries that do not pay this tax.

We propose to abolish the tax or to tax equally all (domestic and foreign) providers of payment and financial services that offer their services to Slovenian customers.

7.5. Open banking

The experience of open banking in other countries and in Slovenia shows that Slovenia is still far behind. Banks failed to prepare in time to provide adequate support for the implementation of the new PSD2 Payment Services Directive. In practice, this means that banks still do not have properly functioning environments in place to support the implementation of the Payment Initiation Service (PIS) and the Account Information Service (AIS).

7.6. The digital euro

As the world's second largest reserve currency, the euro, which has existed for more than a quarter of a century and is used as the official currency by 20 of the 27 Member States of the European Union, is one step closer to getting its own digital counterpart. The launch of this electronic currency is expected at the beginning of 2029. As online purchases become more widespread and payment methods shift toward a wide range of private digital payment options, the use of euro banknotes and coins for payments is in decline.

The digital euro will not replace cash, but will be an additional form of the single currency, complementing euro banknotes and coins, meaning that it will be available to users in addition to cash.

The digital euro will have a significant impact on the whole Eurosystem economy, in particular on the banking system, payment service providers and payment transactions in the EU, as well as on traders. Merchants will have more choice when receiving payments and will be able to benefit from a more competitive EU-wide payments market, which will lead to a more efficient market.

The introduction of the digital euro is expected to have an impact on both the EU retail payments market and bank deposits. On the one hand, the digital euro may cut the market share of existing private electronic means of payment, which will translate to lower revenues for some payment service providers. On the other hand, the distribution of the digital euro will also generate new revenues for payment service providers from additional services related to the digital euro.[20]

[20] Source: https://glasgospodarstva.gzs.si/digitalni-evro-kmalu-v-nasih-denarnicah/

8. Excise duty

The Finance Committee draws attention to the importance of proportionate excise duties, which should take into account the consequences of a fall in sales, business closures and job losses, which would have a direct negative impact on the revenue that the state receives in the form of contributions, income tax and other business taxes.

Raising excise duties drives consumers to purchase products in neighboring countries where they are cheaper, thereby fueling the informal economy. This approach fails to improve public health or reduce healthcare costs, as it encourages the purchase of low-cost products of questionable quality.

In raising excise duties, we also wish to highlight the issue of predictability in tax policy and the business landscape in Slovenia, which is crucial for a healthy economy.

Contact

Address
American Chamber of Commerce – AmCham Slovenia
Dunajska cesta 167, 1000 Ljubljana, Slovenia

Phone
+386 8 205 1350

Media
office@amcham.si
www.amcham.si

AmCham Slovenia
FINANCE
COMMITTEE