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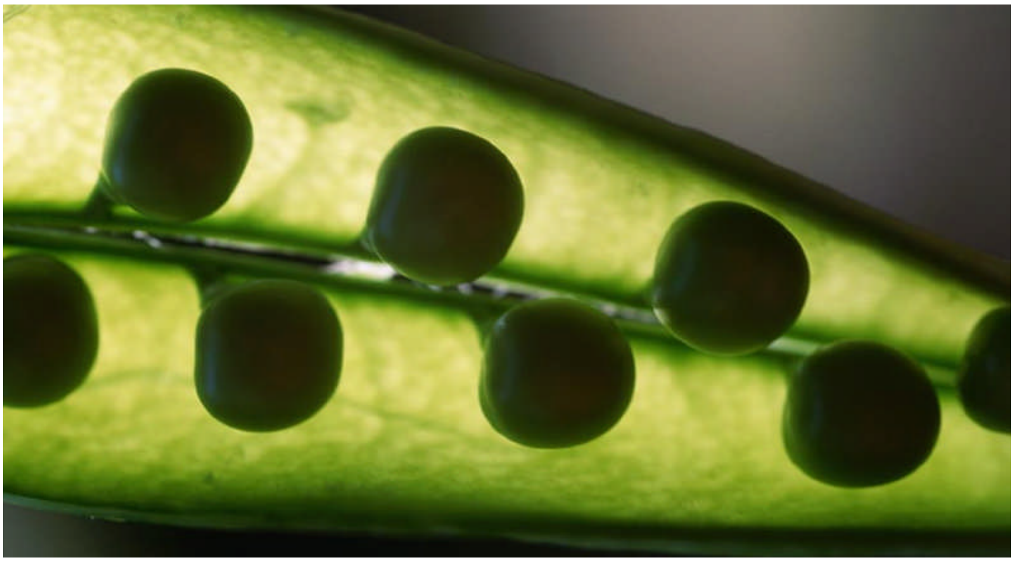

General tax allowance for the investment in equipment and intangible assets

The last amendment to the Corporate Income Tax (CITA-2A) was published two months ago, yet a new amendment to the act was recently adopted (i.e. CITA-2B).

The amendment introduces a general tax allowance for the investment in equipment and intangible assets. The taxable person can apply for a reduction of its tax liability in the amount of 20% for investment purposes (including a financial leasing), however, not to exceed 20.000 EUR and not more than the tax base. The amendment allows for this decrease of taxes, up to a maximum of 10,000 EUR, to be used in the first tax period of investment. The balance (to a maximum of 10,000 EUR) may be utilized over the next five tax periods. The decrease of the tax base in any given tax period can not exceed 10,000 EUR, including the allowance for investment in the current period and any non-utilized tax investment allowance from previous periods.

The tax allowance can not be utilized for investment in office equipment, furniture and vehicles or for goodwill or capitalized expenses of investment into tangible assets of other entities.

In order to qualify for a tax allowance, the corporation must have a minimum of two employees for the whole period in question. The tax allowance cannot be applied for if the taxable person has received grants in relation to the equipment in question from the local municipality, the Republic of Slovenia or the EU.

If the equipment or asset is sold or otherwise disposed before either the end of three years or its total depreciation, the corporation must increase its tax base for the amount deducted for the purchase of the said equipment or asset.

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Summary of the final version of the Report on the Attribution of Profits to Permanents Establishments

On 17 July 2008, the Organization for Economic Co-operation and Development (OECD) approved the release of the final version of the Report on the Attribution of Profits to Permanent Establishments, based on the arm's-length principle described in its 1995 transfer–pricing guidelines.

The Report, containing four parts, provides guidance on the principles for attributing profits to permanent establishments under Article 7 of the OECD Model Tax Convention on Income and Capital.

The first part sets out general considerations for attributing profits to permanent establishments, regardless of the business sector in which they operate. Attributing profits to a permanent establishment is a two-step process**.**
(1) A permanent establishment is assumed to be functional separate entity from the rest of the enterprise of which it is a part,
(2) The profits of a permanent establishment are determined on the basis of a comparability analysis and the application of transfer-pricing methods premised on allocations of assets, risks, and free capital.

The next parts of the Report elaborate on the application of the two-step approach to permanent establishments of enterprises operating in the financial sector, where they are common.

Part two focuses on enterprises and their permanent establishments operating in the banking business**.**

Part three describes the application of the approach to permanent establishments of enterprises dealing with global trading in financial instruments.

Part four concentrates on permanent establishments of enterprises in insurance activities.

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Commission Proposes categories of services to which Member States may apply a reduced rate of VAT

On 7 July 2008 the European Commission proposed changes to the VAT Directive 2006/112/EC to provide Member States with the flexibility to apply reduced VAT rates for some specific services on a permanent basis. The Commission proposal covers areas where there is sufficient evidence that reduced rates do not adversely affect the functioning of the Internal Market. The reductions pertain mainly to the labour-intensive sector and locally supplied services, including restaurant services. The proposal does not alter the principle that the application of reduced rates is optional for Member States.

The scope of the proposal is therefore limited and most of the services in question are already eligible for a reduced rate but only in a limited number of Member States and only for a limited period running until 2010.

The **housing sector** will no longer be limited to services which are currently linked to a social policy, but will be broadened to include the supply and construction of all housing. It will also include the services indirectly related to the housing sector such as renovations, maintenance, and cleaning.

Supply of **restaurants and catering services**, excluding alcoholic beverages, are also included in this rate reduction application.

It is proposed that all labour-intensive services be permanently included in the list of services eligible for reduced rates. This category will be broadened to include many other locally supplied services of a similar nature, as follows:

- Minor repairs of consumer goods, such as shoes, clothes, computers, watches, bikes (excluding other means of transport).
- Cleaning and maintenance services of cleaning and maintenance of all consumer goods and other means of transport are included.
- Domestic care services such as home help and care of the young, elderly, sick or disabled.
- All personal care services such as hairdressing and beauty services.
- Gardening services.
- Renovation and maintenance services provided to places of worship, cultural heritage and historical monuments, as recognised by the Member States.

In addition a number of minor amendments are proposed. **Pharmaceutical products** will now cover all absorbent hygiene products, notably including children's nappies. The Commission also proposes widening the category of **medical equipment** for the disabled to cover all specially designed or adapted material or equipment for the exclusive personal use of the disabled such as specially adapted cars and Braille keyboards.

Under current legislation, **printed books** may be subject to reduced rates. The Commission proposes widening the definition of books to include audio-books, defined as 'CDs, CD-ROMs or any physical support that predominantly reproduce the same information content as printed books' and which do not include other material such as games.

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