In brief

At the recent tax breakfast, Tax Advisors had discussed together with Tax Inspector current issues and practices and recent changes of Slovene legislation in the field of transfer pricing, presented practical aspects of the Mutual Agreement Procedure (MAP), and discussed concluding of Advance pricing agreements (APA), which will be possible in Slovenia in year 2017 onwards.

In detail

On October tax seminar, we hosted Ms Danuška Bobek Gospodarič, Inspector-Adviser at the Financial Administration of the Republic of Slovenia. Ms Danuška Bobek Gospodarič shared her knowledge gained through cooperation with OECD in the field of transfer pricing legislation and her practical experience from execution of tax audits of Slovene taxpayers. We hosted also Ms Janja Ovsenik, Director of Tax Services at PwC Luxembourg, who explained the influence of BEPS Actions and other tax initiatives in the field of international taxation of companies.

Together with the Tax Inspector we touched upon current issues and explained the Mutual Agreement Procedure (MAP) used for purposes of elimination of double taxation. Such procedures are in Slovenia often a consequence of secondary adjustments that occur based on the tax audits in the field of transfer pricing. Authorities in the first country increase tax base due to the adjustment of transfer prices. If in the second country, where transaction took place, an adjustment of the tax base is not performed, there might be a double taxation. In such case, a MAP must take place, so this double taxation is eliminated. In case of further information is required, we are glad to help you.

Our discussion also touched upon Advance Pricing Agreements (APA), which will become a legal possibility for Slovene taxpayers from January 2017 onwards. Such agreements between taxpayer and tax authorities are concluded before implementation of transactions between related entities and it determines methodology, critical assumptions and other appropriate criteria for determining of transfer prices and the period for which such criteria apply. PwC Slovenia offers support to local and international companies in the Mutual Agreement Procedures as well as in the procedure for APA.

There was also a discussion on Country-by-Country reporting, also known under acronym CbCR. Such reporting should be done by Slovene Ultimate Parent Entities of a multinational enterprise group and whose consolidated revenues exceed EUR 750 million. CbCR must be submitted no later than 12 months of the last day of the tax-reporting period by the multinational enterprise group. According to the rules, Slovene Ultimate Parent Entities will have to submit their first CbCR for the year, which began on or after 1 January 2016. If you have any further questions regarding CbCR, do not hesitate to contact us.

How can we help?

PwC Slovenia can assist with preparation of CbCR reports and other documentation related to the transfer pricing or preparation of opinion about existing or contemplated transactions between related entities and its compliance with Slovene and international legislation.
Changes to the corporate taxation

November 2016

In brief

On 19 October 2016, Slovene Parliament adopted proposed amendments to the Corporate Income Tax Act (CITA-2N). Adopted amendments follow the actions of tax re-structuring, which are expected to ensure higher competitiveness and productivity of the economy, while achieving fiscal consolidation and reduction of deficit. Amendments are part of tax re-structuring programme for reducing the burden on labour, while increasing the burden on corporate profits. Adopted amendments will enter into force with 1 January 2017.

In detail

Amendments to the Corporate Income Tax Act (CITA-2) are introducing the actions of re-structuring of tax burdens through increase of tax rate of corporate income tax. Besides new tax rate, the amendments abolish tax relief for donations to political parties and special tax rates for venture capital companies and co-ordinate arrangements for the exemption of profits from the disposal of equity shares in such companies. Regarding the recognition of expenses for purposes of taxation of companies, the amendments introduce a prohibition of the recognition of expenses from the depreciation of the goodwill.

Increase of tax rate for corporate income tax from 17% to 19%

In recent years, the tax rate on corporate income tax has gradually reduced and the government with the current amendments after years of decrease of tax rate increased such rate to 19%. The aim is, in light of restructuring tax burdens and ensuring of fiscal consolidation, to maintain the budget revenues by increase of the burden on the profits of companies and decrease the burden on labour. Higher tax rate will apply from 1 January 2016 onwards.

Abolition of benefits for venture capital companies

In the past, a venture capital company had a chance for allowed investments of venture capital to raise a benefit of paid taxes at the rate of 0% of the tax base, if it has prepared up a separate return for only such activities. Under the amendments to the CITA-2 the special zero tax rate for venture capital companies is abolished. The new changes also introduce new arrangements for the tax exemption of gains from a disposal of equity shares.

Prohibition of recognition of expenses for tax purposes from depreciation of goodwill

Users of Slovene Accounting Standards (SAS) could depreciate the goodwill, while in accordance with the International Financial Reporting Standards (IFRS) this is not allowed. Due to the direct link between the accounting treatment and tax consequences, the amendments to the CITA-2 prohibit the recognition of expenses from the depreciation of goodwill and thereby ensure an equal treatment of taxpayers who use different accounting standards.
Research and development –
Updated Fourth general opinion of
the Ministry of Economic
Development and Technology

November 2016

In brief

Ministry of Economic Development and Technology published on 19 October 2016 an updated Fourth general opinion concerning claimed activities for a tax relief for investments in research and development (R & D), which was originally published on 23 September 2016.

Updated opinion further clarifies how the business can demonstrate the result of the research and development activities and complements the interpretation of the previous three general opinions, which are still applicable.

In detail

Ministry of Economic Development and Technology (MEDT) published a Fourth general opinion concerning claimed activities for a tax relief for investments in research and development (R & D), published on 23 September 2016, which further clarified conditions set out in the previous three general opinions. The most important fact in this relation was mitigation of strictness of conditions and prohibition of retroactive application of general opinions. Besides, they additionally explained the term of novelty, which should not mean that the device/item/system did not exist before R&D, but the condition for novelty is that the production procedure is not yet publically published.

On 19 October 2016, MEDT published updated opinion and warned that the opinions are prepared with the aim of additional explanations and not for narrowing of the legal framework and the definition of R&D. The ultimate purpose of opinions is provision of greater clarity and predictability for businesses who want to use tax deduction for R&D. The opinions of MEDT are just guidelines and they refer to utilities, which can be used by Slovene Tax Authorities for determination of the novelty. Insofar as these utilities cannot be used, this by itself does not mean non-existence of the novelty. Determination of the novelty can thus be performed in accordance with the applicable regulations.

The original version of the Fourth general opinion contained in its closure a statement that neither the proof for existence of novelty nor the absence of such proof can be regarded as exclusive evidence that the novelty exists or not. MEDT did not include this statement into the updated version of the opinion. Therefore, the question whether the Slovene Tax Authorities will require certain proof for proving of existence of the novelty is still without an answer.

MEDT had again strongly emphasized in updated fourth general opinion that the burden of proof of fulfilment of conditions for tax relief lies on taxpayer. They must prepare specific project/programme related only to the R&D activities and take care to ensure adequate clarity of funding sources. In light of the aforementioned, the persons claiming the tax relief for investment in R&D should be aware that the Tax authorities must be able to assess compliance with each of the five characteristics reflected in the Frascati Manual, issued by the OECD (novel, creative, uncertain, systematic and transferable and / or reproducible). In assessing these characteristics, a person cannot rely on the institution of business secrets, because in such case the Slovene Tax Authorities cannot adequately assess the situation.

How can we help

In case of any questions related to tax reliefs for investments in R&D, do not hesitate and contact us. PwC Slovenia can assist company with estimation of assertion of tax reliefs for investments in R&D and with preparation of supporting documentation or opinion about compliance with Slovene legislation.
For a deeper discussion of how this issue might affect your business, please contact:

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