

WTS Slovenia

Tax reform 2019-2022

Last week of February 2019, the Slovene Ministry of Finance presented a package of tax changes for the period 2019 to 2022, which has not been adopted yet. We welcome the provisions for the relief of taxation of employment income as the OECD suggested, however the Government should be smarter in implementing the changes in taxation of capital income and capital gains.

Taxation of companies - Increase of CIT rate

The current corporate income tax (CIT) rate in 2019 is 19% and will increase in the following years as follows:

- in 2020 the CIT rate will be 20%,
- in 2021 the CIT rate will be 21%,
- from 2022 on, the CIT rate will be 22%.

Taxation of individuals – heavier tax on capital income and capital gain

So far it has been considered that in case of interest, dividends, rental income and capital gains, taxation is 25% and final. At present, the following tax rates apply to capital gains realized in 2019:

- ownership of capital < 5 years => tax rate of 25%,
- ownership of capital from 5 to 10 years => tax rate of 15%,
- ownership of capital from 10 to 15 years => tax rate of 10%,
- ownership of capital from 15 to 20 years => tax rate of 5%,
- ownership of capital > 20 years => tax free.

With the tax reform 2019-2022, the taxation of interest, dividends and rental income will increase from the current 25% to 30%.

Taxation of capital gains from the disposal of shareholdings, real estate and other property will be taxed from 2020 on as follows:

- ownership of capital up to 10 years => tax rate of 30%,
- ownership of capital > 10 years => tax rate of 15%.

As is clearly from the tax reform, capital gain will not be tax free anymore from 2020 on. The government's proposal does not provide for a transitional period for old, already acquired rights under the existing Income Tax Act.

Taxation of employees

A. HOLIDAY REMUNERATION

Currently payment of holiday remunerations is subject to the advance payment of personal income tax up to 70% of the average gross salary in Slovenia at the time of payment, which is 1,247.49 EUR in March 2019.

After the tax reform, the holiday remuneration should be free of tax and free of any social contributions. Simply this means that the employer's cost would be equal to the net payment to the worker in the maximum amount of an average gross salary in Slovenia, which is for March 2019 1,782.12 EUR.

It is expected that already paid holiday remunerations 2019, for which the advance payment of income tax has been charged and withheld, will be refunded to the employee in the course of the annual income tax assessment 2019.

Example:

Following a proposal for a tax reform a company, who will payout holiday remuneration in gross amount of 1,200 EUR, should have labour costs of 1,200 EUR and the employee should receive a net amount of 1,200 EUR of holiday remuneration to his bank account.

B. MORE FAVOURABLE INCOME TAX BRACKETS AND TAX -FREE AMOUNT

The income tax brackets are formed in the direction to relieve income from employment from heavy taxation on employment income, as it was evaluated by the OECD.

The following income tax brackets are suggested:

Net annual tax base (EUR)		Income tax (EUR)
over	up to	
	8.500,00	16 %
8.500,00	25.000,00	1.283,41 +26 % over 8.500,00
25.000,00	50.000,00	4.625,65 +32 % over 25.000,00
50.000,00	80.000,00	14.009,65 +39 % over 50.000,00
80.000,00		22.943,46 +50 % over 80.000,00

The general relief for taxable persons - residents, determined on the basis of the total annual income of the individual and is expected to be the following:

annual income (EUR)		General tax free amount (EUR)
over	up to	
	11.166,37	6.717,00
11.166,37	12.570,89	4.418,64
12.570,89		3.500,00

This means that a general tax deduction from the current 3,302 EUR would increase to 3,500 EUR for all taxpayers.

C. BONUS SALARY

Currently, on one-time bonus salary or in direct translation » *part of remuneration for successful business*» the social contributions of 38.2% without limitation are levied, but no advance tax payment to the amount of 100% of the average gross salary in Slovenia. Bonus salary has to be paid out only once a year and for all employees, which fulfill the requirements, written in the Decision of the Management Board.

The tax reform suggests that from 2020 onwards, the basis of a bonus salary, which is exempt from personal income tax, is as follows:

- in 2020 it will increase to 150% of the average gross salary in Slovenia or about 2,550 EUR,
- in 2021 it will increase to 175% of the average gross salary in Slovenia or about 2,975 EUR,
- and from 2022 it will increase to 200% of the average gross salary in Slovenia, currently at around 3,400 EUR.

It is also important that bonus salary is not taken into account in the calculation of annual income tax.

Example:

Example of calculation for 2022:

Gross bonus salary: 3,400 EUR

Employer`s cost: 3,947.40 EUR

Net payment to the employee: 2,648.60 EUR

We expect that the proposals will be adopted in the current form, however there might be some transitional provisions, which would prevent sudden decisions of the capital owners, residents in Slovenia, to flee from the Slovene capital market.

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