

THE REPUBLIC OF SLOVENIA
MINISTRY OF FINANCE
IRENA ERJAVEC

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BRINGING INFORMAL SECTOR FIRMS
INTO THE FORMAL ECONOMY

Parallel Session 4

Stream A

Tax Reform in Slovenia

- Employment and growth, improvement of competitiveness, protection of the sustainability of public finance, were the basic objectives of the tax reform in Slovenia that was adopted last year and became effective on January 1, 2007.
- SMEs play important role in the economy and Slovenia is making effort in creating tax environment that would encourage informal firms to become and stay formal.

Reasons for encouraging compliance

- Informal firms erode the tax base and distort competition
- Slovenia – a social state
 - right to social security
 - right to health care

The Way of Slovenia

- The presentation will lead us through major solutions designed with the aim to proper treatment and encouragement of SMEs aswell as other taxpayers.

Needs of SMEs

- Dialogue between the Ministry of Finance and the Chamber of Craft and other stakeholders
- Identifying the needs and demands of SMEs
- Responding to the demands of SMEs

Encouraging Informal Firms into Formal Economy – Policy Mix

- Proper tax treatment
- Reducing administrative burden
- Role of Tax Administration
- Better (more transparent) regulation
- Transparent use of public funds
- Other policies/factors (licenses, registration, etc.)

Tax treatment

- Proper tax treatment – one of the key factors to bring the informal economy into formal
 - moderate tax burden (employers, employees, incorporated and unincorporated business)
 - simplifications, taxpayer friendly procedures

Tax treatment (cont'd)

Recent changes (effective 2007)

- Personal income tax (synthetic):
 - the number of brackets lowered from 5 to 3
 - tax rates lowered in the higher income group: 16%, 27% and 41%
 - basic allowance raised to 2.800 euros

Tax treatment (cont'd)

- schedular:
 - capital income (introduced already in 2006)
 - interest : tax rate 15% in 2007, and 20% afterwards (interest on savings deposits in banks in EU are tax exempt up to 1.000 euros)
 - dividends: tax rate 20%

Tax treatment (cont'd)

- capital gains: the tax rate for capital gains depends on the holding period:
 - 20% for a holding period of up to 5 years
 - 15% for a holding period from 5 to 10 years
 - 10% for a holding period from 10 to 15 years
 - 5% for a holding period from 15 to 20 years
 - exempt for a holding period longer than 20 years

The alienation of residential property, if the holding period is more than 3 years, is tax exempt

Tax treatment (cont'd)

Recent changes (effective 2007)

Corporate income tax

- Corporate profit tax rate will be gradually lowered from 23% in 2007 to 20% in 2010
- Withholding tax rates lowered to 15%

Tax treatment (cont'd)

- Payroll tax

gradual elimination, final elimination per
1.1.2009

Simplifications, taxpayer friendly procedures

- Various simplifications:
 - simplified computation of the tax liability
business income (personal income tax up to 42.000 EUR): presumptive costs allowed (25%; 70% for farming and production of home craft and applied art products)
 - no requirements to report tax exempt income

Simplifications, taxpayer friendly procedures (cont'd)

- principles of the tax procedures explicitly regulated by the law
- prepopulated tax returns (personal income tax)
- advance rulings

Simplifications, taxpayer friendly procedures (cont'd)

- installment payments of tax liability (under certain conditions)
- self-indictment
- possibility to change the tax return subsequently in the case of error

Tax Administration

- Taxpayer oriented
- Efficient
- Transparent
- Equal treatment of taxpayers

Detection and prevention of informal economy in Slovenia

- Prevention of Illegal Work and Employment Act (Official Gazette of the Republic of Slovenia, No 36/2000, 118/06)
- Supervision: Labour Inspectorate, Market Inspectorate, Transport Inspectorate, Tax Administration
- Coordination: State Commission

Conclusions

- Impact of recent changes in the tax system on the informal economy cannot be recognised yet but I believe that we are on the right way.
- Speaking globally, it is also very important to educate consumers who buy such products and services.