GOVERNMENT OF THE REPUBLIC OF SLOVENIA

Draft budgetary plan 2020

ADDENDUM

November 2019

The addendum

The National Assembly adopted a package of tax changes on October 23th 2019. The measures will have further positive effect on labour and consequently on increased competitiveness of business environment, maintaining stable economic environment and contributing to sustainable growth. The measures were adopted after the finalisation of the Draft Budgetary Plan 2020. For this purpose, the addendum with more precise description of the measures and estimation of their financial impact is prepared. The changes will have impact on the structure of the revenues and will be neutral on the general government level (ESA 2010 methodology, state budget surplus on cash basis will decrease by 0,1 p.p. of GDP, but due to accrued final repayments of corporate income tax in the same amount in 2020 the general government impact is neutralized). Since all other assumptions remain the same also the fiscal targets of the general government remain the same.

Tax reform adopted in October 2019 includes changes in personal income tax (PIT) that will reduce taxes on labour and increase the taxation of capital income (net effect of -118 million EUR). Amendments to the Personal Income Tax Act include

- increase of general tax allowance from 3,303 to 3,500 EUR,
- broadening the tax schedule thresholds,
- change of tax rate in second (from 27% to 26%) and third bracket (from 34% to 33%),
- introduction of linearly determined additional general tax allowances for the annual income up to 13,316.83 EUR,
- increase of tax rates for capital income (from 25% to 27.5%, and by 5 percentage points for capital gains with holding period from 5 to 20 years).
- To neutralize the effect on budget revenues and to achieve equal burden on legal entities, a minimum effective tax rate of 7% is introduced for corporate income tax (CIT) (estimated effect of +47 million EUR).

Additional revenue compensation measures to completely neutralize the revenue impact of reform will be introduced by improved efficiency in tax collection (+71 million EUR). The measures will be implemented in the fields of desk audit (centralization, predictive analytics, and other improvements), tax auditing (risk management, more resources) and recovery of debt (automatization and other improvements). The detailed descriptions of measures and their estimated financial impact are presented in the table below (detailed elaboration of Tax office is available on request).

Table 1. Detailed description of measures

Measures	Description	Impact in % GDP	ESA Code
PIT and taxation of capital income	• Increase of general tax allowance from 3,303 to 3,500 EUR, change of tax rate in second (from 27% to 26%) and third bracket (from 34% to 33%). • Increase of tax rate on capital gains from 25% to 27.5% and by 5 percentage points for capital gains with holding period from 5 to 20 years.	-0.23	D.5
CIT	• Introduction of minimum effective tax rate of 7%.	0.09	D.5
Improved efficiency of Tax Authority – impact on PIT and CIT	• Monitoring of undeclared work at short term renting of real estate, undeclared employment, etc. • Improved predictive analytics of tax evasion. • Improvement of risk management system (related to forming and use provisions, payout of profits, purchase of own shares etc.). • Increasing the number employees in the field of transfer pricing and due to this the number of audit cases. • Improvements of automatic processes; increase the share of payments performed by persons liable based on assessment decisions issued in audit procedures and international exchange of data.	0.08	D.5
Improved efficiency of Tax Authority – impact on VAT	• Improved predictive analytics of tax evasion in the field of VAT. • Improvement of risk management system in the field of e-commerce (increased revenues in VAT).	0.06	D.2

Source: Ministry of Finance.

Annex to the DBP 2020: Required tables

Table 4.a. General government expenditure and revenue targets broken down by main components

	ESA Code	2019 (% of GDP)	2020 (% of GDP)
General government (S13)			
1. Total revenue target	TR	44.50	43.86
Of which:			
1.1 Taxes on production and imports	D.2	13.92	13.72
1.2 Current taxes on income, wealth, etc.	D.5	7.97	7.93
1.3 Capital taxes	D.91	0.02	0.02
1.4 social contributions	D.61	16.01	16.05
1.5 Property income	D.4	0.83	0.70
1.6 Other		5.75	5.44
p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995)		37.91	37.72
2. Total expenditure target	TE	43.69	42.99
Of which:			
2.1 Compensation of employees	D.1	11.34	11.30
2.2 Intermediate consumption	P.2	6.08	5.97
2.3 Social payments	D.62,D.63	17.59	17.36
Of which unemployment benefits		0.33	
2.4 Interest expenditure(=9 in table 2.a)	EDP D.41	1.63	1.49
2.5 Subsidies	D.3	0.74	0.75
2.6 Gross fixed capital formation	P.51	3.82	3.85
2.7 Capital transfers	D.9	0.51	0.47
2.8 Other		1.98	1.80

Source: Ministry of Finance.

Table 5. Discretionary measures

	ESA Code	2018 (% of GDP)	2019 (% of GDP)	2020 (% of GDP)
Revenue				
Taxes on production and imports	D.2			+0.1
Current taxes on income, wealth, etc.	D.5			-0,1
Capital taxes	D.91			
Social contributions	D.61			
Property income	D.4			
Other	P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91)			
Expenditure				
Compensation of employees	D.1			-0.1
Intermediate consumption	P.2			
Social payments, of which, where applicable, unemployment benefits including cash benefits and in...	D.62+D.63+D.621+D.624+D.631			-0.1
Interest expenditure	EDP D.41			
Subsidies	D.3			
Gross fixed capital formation	P.51			-0.1
Capital transfers	D.9			
Other (other than D.41)	D.29+D.4+D.5+D.7+P.52+P.53+K.2+D.8			

Source: Ministry of Finance.