

Negotiating Position of the Republic of Slovenia on Chapter 10 TAXATION

The Republic of Slovenia accepts the *acquis* with respect to Chapter 10 – Taxation, but requests:

- a transitional period of two and half years starting on the date which serves as Slovenia's working assumption for accession to the European Union and lasting until 30 June 2005 to harmonise the level of excise duty on cigarettes with the minimum level required by the *acquis* (Directive 92/79/EEC);
- a transitional period of two and a half years starting on the date which serves as Slovenia's working assumption for accession to the European Union and lasting until 30 June 2005 to harmonise the level of excise duty on fermented beverages with the level required by the *acquis* (Directive 92/84/EEC);
- a derogation concerning the application of a reduced value-added tax rate for the following categories of goods and services: preparation of meals; wine; visual and audio materials; construction, renovation and maintenance of all housing facilities and special buildings for the accommodation for the disabled (Sixth Council Directive 77/388/EEC); and
- a derogation concerning the ceiling below which taxable persons are allowed to apply simplified procedures (special scheme) for charging value-added tax (Sixth Council Directive 77/388/EEC). The Republic of Slovenia requests that it retains a higher ceiling – that which was defined in the Value Added Tax Act (Ur. l. RS, no. 89/99).

The Republic of Slovenia's legislation on chapter 10 – taxation almost fully complies with the *acquis*.

By adopting the Value Added Tax Act, Excise Duties Act and the secondary legislation thereof, and implementing them as of 1 July 1999 the Republic of Slovenia's legislation on value-added tax and excise duties fully complies with the *acquis*, except for the requirements of Sixth Council Directive 77/388/EEC for which the Republic of Slovenia requests

derogations or transitional periods. There is also non-compliance with the provisions concerning the transitional regime for elimination of tax control on the internal borders of the Member States and concerning the refund of value-added tax to taxable persons not established in Community territory, which are related to full membership of the European Union. The Republic of Slovenia will align its legislation with the aforementioned provisions by 31 December 2002 at the latest and will fully implement it upon actual accession to the European Union.

Implementation of the *acquis* on administrative co-operation and mutual assistance is related to full membership of the European Union. The Republic of Slovenia will, therefore, carry out all the necessary organisational changes and reinforce the staffing of the Tax and Customs Administrations at the latest by 31 December 2002 to be able to implement the *acquis* in this field upon actual accession to the European Union.

The Republic of Slovenia's legislation on miscellaneous in international passenger traffic fully complies with the *acquis* except for the provisions of Directive 69/169/EEC relating to the value limits up to which the goods contained in the personal luggage of travellers coming from Member States or third countries are exempt from paying value-added tax and excise duties, and the provisions of Directive 78/1035/EEC relating to the exemptions from value-added tax and excise duties on imports of small consignments of goods of a non-commercial character from third countries. The legislation laying down the value limits will be brought into line with the *acquis* by 31 December 2002 at the latest and implemented, given the fact that these limits only apply to Member States, upon actual accession to the European Union. With regard to the exemptions from value-added tax and excise duties on imports of small consignments of goods of a non-commercial character from third countries, the Republic of Slovenia will properly amend the Value Added Tax Act and implement the amendments by 31 December 2001 at the latest.

The Republic of Slovenia's legislation on direct taxation does not comply with the *acquis*. The Republic of Slovenia will harmonise its legislation in this field by 31 December 2000 at the latest and implement it upon actual accession to the European Union.

In this way, the Republic of Slovenia's legislation related to chapter 10 – taxation will be fully in compliance with the *acquis* at the latest by 31 December 2002 and gradually implemented at the latest by the actual accession to the European Union, except for those parts where it requests transitional periods and derogations.

The Republic of Slovenia has in place all the institutions necessary to implement the *acquis* related to chapter 10 – taxation: the Ministry of Finance, Tax Administration of the Republic of Slovenia and Customs Administration of the Republic of Slovenia. However, within the Tax Administration, a special administration unit will be set up by 31 December 2002 at the latest, responsible for co-operation with the relevant bodies of other Member States (VIES – The Value-added Tax Information Exchange System) and, within this unit, a department for the international exchange of data (CLO – Central Liaison Office). Furthermore, within the Customs Administration, the Republic of Slovenia will set up a special administrative unit for co-operation with Member States in relation to excise duties and collection of customs duties, agricultural levies and excise duties (SEED – System of exchange of excise data).

JUSTIFICATION:

1. VALUE-ADDED TAX

Existing legislation in the Republic of Slovenia

The Republic of Slovenia's legislation on value-added tax as in force since 1 July 1999 is governed by: the Value Added Tax Act (Ur. l. RS, no. 89/98), the Regulations on implementation of the value added tax act (Ur. l. RS, no. 4/99, 45/99, 59/99), the Regulations on the implementation of Articles 29 and 30 of the Value Added Tax Act (Ur. l. RS, no. 40/99), the Regulations on application of exemptions from payments of value-added tax and excise duties in international passenger traffic (Ur. l. RS, no. 40/99), and an Order on the conditions and method of exemption from value-added tax or excise duty for diplomatic and consular representatives and international organisations in accordance with international agreements in force in the Republic of Slovenia (Ur. l. RS, no. 47/99).

By the entering into force of the Value Added Tax Act on 1 July 1999, the legislation on value-added tax (hereinafter VAT) almost fully complies with the *acquis*.

The Value Added Tax Act is fully in conformity with the requirements of the Eighth Council Directive 79/1072/EEC

relating to the refund of value-added tax to taxable persons not established in the territory of the country.

The Value Added Tax Act fully complies with the Sixth Council Directive 77/388/EEC as amended, except for the provisions concerning the transitional regime for elimination of tax control on the internal borders of Member States and the provisions concerning reduced rates of VAT for the categories of goods and services for which the Republic of Slovenia requests a derogation (preparation of meals; wine; visual and audio materials, and construction, renovation and maintenance of all housing facilities and special buildings for the accommodation for the disabled).

The Value Added Tax Act does not comply with the Thirteenth Council Directive 86/560/EEC concerning the arrangements for the refund of VAT to taxable persons not established in Community territory.

The Value Added Tax Act does not comply with the *acquis* concerning the ceiling below which taxable persons are allowed to apply simplified procedures (special schemes) for charging the value-added tax. In the Republic of Slovenia, the ceiling is set at SIT 5 million (the equivalent of around EUR 25,000) for the annual turnover of goods and services and at SIT 1.5 million (the equivalent of around EUR 7,500) in agriculture and forestry. Taxable persons with a turnover below the ceiling values are allowed to apply the simplified procedures. This ceiling differs from the Sixth Council Directive 77/388/EEC, according to which it should not exceed EUR 5,000 (around SIT 930,000).

Harmonisation of legislation with the acquis

The Republic of Slovenia will amend, by 31 December 2002 at the latest, the Value Added Tax Act so as to comply with the provisions concerning the transitional regime for elimination of tax control on the internal borders of Member States (Sixth Council Directive 77/388/EEC). Given the fact that implementation of these provisions is related to actual membership of the European Union, the Republic of Slovenia will implement them upon actual accession to the European Union.

The Republic of Slovenia will amend, at the latest by 31 December 2002, the Value Added Tax Act so as to comply with the provisions concerning the refund of VAT to taxable persons not established in Community territory. Given that implementation of these provisions is related to actual membership of the European Union, the Republic of Slovenia will implement them upon actual accession to the European Union.

By adopting the aforementioned amendments, the VAT system in the Republic of Slovenia will be fully harmonised with the *acquis*, except for those parts where the Republic of Slovenia requests derogations.

Request for derogations

According to the Sixth Council Directive 77/388/EEC, Member States are allowed to apply a reduced rate of value-added tax to consumer goods and services related to consumer goods in a wider sense, and goods and services important in the context of preserving national identity. These goods and services are listed in Annex H of the above Directive.

The Republic of Slovenia applied the principles of the Sixth Council Directive 77/388/EEC and its annex H when deciding on those goods and services which are to be subject to reduced rates of VAT. However, owing to certain specific characteristics related to life in the Republic of Slovenia, certain categories of goods and services of similar characteristics were added to the list from Annex H. The Republic of Slovenia requests a derogation to apply a reduced rate of VAT for the following categories of goods and services:

- a) preparation of meals,
- b) wine,
- c) visual and audio materials, and
- d) construction, renovation and maintenance of all housing facilities and special buildings for the accommodation for the disabled.

PREPARATION OF MEALS

Organised meals for certain population categories (children, pupils, students, sick and disabled persons) in kindergartens, schools, hospitals, homes for the disabled, etc. are related to the preparation of food in commercial catering establishments. These population categories usually belong to lower-income groups of the population.

Prior to the introduction of VAT, a 6.5% sales tax rate was levied on catering services. A switch to a 19% VAT rate would lead to a surge in the costs of preparing meals, and thus disproportionately burden these population categories.

Preparation of food - as one of hotels and restaurants services - is also part of tourist services. Some Member States retained a reduced VAT rate for hotels and restaurants services related to the preparation of food (e.g. Austria - 10%, Luxembourg - 3%, the Netherlands - 6%, Greece - 8%, Italy - 10%, Spain - 7%). Should the Republic of Slovenia introduce a standard VAT rate levied on preparation of food it would be in a less competitive position than its neighbouring countries which have retained a reduced VAT rate for these services.

WINE

In the Republic of Slovenia a uniform 8% VAT rate is applied to wine in the domestic market as well as to imported wine.

The Republic of Slovenia is a typical wine-growing country with high-quality although demanding vineyard areas (more

than 60% of its vineyards lie in areas with a more than 20% slope and around one-third on areas with more than a 45% slope). Like in many other countries, consumption of wine in the Republic of Slovenia is falling, which might lead to a gradual overgrowing of vineyard areas which are, however, usually unsuitable for other agricultural production.

Furthermore, more than 85% of wine in the Republic of Slovenia is produced on farms of an extremely unfavourable size. 32% of all farms have vineyards, of which an average farm with a vineyard has 3.28 ha of agricultural land and only 0.28% of that land is wine grown. In the majority of cases, these are small-scale farmers who are primarily not oriented to producing wine for commercial purposes.

With a view to preserving the cultural landscape and settlements, the agricultural policy supports wine-growing activity by structural and price measures which, however, are insufficient. Competitiveness of the wine-growing industry is relatively low compared to other agricultural activities. And taking into account that the proportion of the grey economy in wine trade is relatively high, the producers of wine who pay taxes would - had the standard VAT rate been introduced - find themselves in an additionally deteriorated situation compared to those who do not pay taxes. This would not have a desirable effect, because the process of necessary concentration of grape and wine growing would be further hindered through the tax system.

The Republic of Slovenia believes that the reduced VAT rate on wine would help halt the decreasing trend of wine consumption and thereby, at least through tax measures, not reduce the chances of preserving high-quality wine-growing land. Further, the reduced tax rates would represent more momentum in the process of concentrating wine-growing activity (a gradual move from small-scale "amateurish" wine growers to larger market-oriented producers) which has already been under way and in turn is enabling wine growers to survive and preserve the wine-growing land. The concentration of wine-growing activity would consequently also lead to a gradual shrinking of the level of the grey economy.

VISUAL AND AUDIO MATERIALS

Preservation of cultural diversity is one of the main principles of the European Union and cultural activity is an important element through which this goal is achieved. The Sixth Council Directive 77/388 permits the application of a reduced VAT rate for books, newspapers and periodicals (carriers of the printed word). According to the Value Added Tax Act, in the Republic of Slovenia a reduced VAT rate is also applied to visual and audio materials. With the expansion of new products such as compact discs and the Internet, the demarcation line between text, image and sound has become increasingly unclear. The same items can be presented in books, on compact discs or

films. The process of digitalisation has become a key moment in development. The Republic of Slovenia is therefore of the opinion that the same tax rate should be applied to all works of art, regardless of how (via which technical carrier) they are presented. This is important in particular for small countries in which, due to their limited cultural area, the original artistic production is relatively restricted.

CONSTRUCTION, RENOVATION AND MAINTENANCE OF ALL HOUSING FACILITIES AND SPECIAL BUILDINGS FOR THE ACCOMMODATION FOR THE DISABLED

182 The Sixth Council Directive 77/388/EEC permits a reduced VAT rate to be charged on the construction, renovation and alteration of housing provided as part of a special social policy. In the Republic of Slovenia, a special social policy is incorporated into the National Housing Programme. The housing shortfall in the Republic of Slovenia amounts to 30,000 flats or approximately 5% of the housing supply. The trends recorded recently in the Republic of Slovenia are the ageing of population and increasing of the number of households. A great majority of flats are within owner-occupied family houses. The market for rental flats is still under-developed. Demand considerably exceeds supply, and consequently the prices of real estate are disproportionately high compared to the general standard of living. All these problems point to the greatness and seriousness of social problems in the Republic of Slovenia. Should the standard VAT rate be applied to housing construction, this would additionally affect the housing standard in the Republic of Slovenia and reduce the possible solutions to the housing problem.

In addition, the Republic of Slovenia requests a derogation from the provisions of the Sixth Council Directive 77/388/EEC setting out a ceiling below which taxable persons are allowed to apply simplified procedures (special schemes) for charging the value-added tax. The Directive sets this ceiling at the annual turnover of EUR 5,000. The Republic of Slovenia requests that it retain the existing legislation which sets this ceiling at SIT 5 million (the equivalent of around EUR 25,000) for the annual turnover of goods and services and a ceiling of SIT 1.5 million (the equivalent of around EUR 7,500) in agriculture and forestry.

The ceiling has been set on the basis of a thorough analysis whose aim was to establish an appropriate relationship between tax yields, acceptable cascading of taxation and tax evasion. Based on this analysis, the ceiling was determined so as to allow for an optimum relationship between the number of taxable persons and the number of legal or natural persons which do not reach this ceiling, while still ensuring an acceptable rate of tax cascading that does not threaten Slovenia's economic equilibrium.

Institutional framework for implementing the harmonised legislation

The Republic of Slovenia has in place the institutions necessary to implement the *acquis* on value-added tax: the Ministry of Finance, Tax Administration of the Republic of Slovenia and Customs Administration of the Republic of Slovenia. The latter two institutions will be properly reinforced and reorganised at the latest by the date which serves as Slovenia's working assumption for accession to the European Union (31 December 2002).

2. EXCISE DUTIES

Existing legislation in the Republic of Slovenia

The Republic of Slovenia's legislation on excise duties, in force since 1 July 1999, is governed by: the Excise Duties Act (Ur. l. RS, no. 84/98), the Regulations on the implementation of the Excise Duties Tax (Ur. l. RS, no. 6/99), the Regulations on application of exemptions from payments of value-added tax and excise duties in international passenger traffic (Ur. l. RS, no. 40/99), Order on the conditions and method of exemption from value-added tax or excise duty for diplomatic and consular representatives and international organisations in accordance with international agreements in force in the Republic of Slovenia (Ur. l. RS, no. 47/99), Order on the conditions and method of refund of excise duty for mineral oils used for agricultural and forestry mechanisation, Order on the refund of excise duty for mineral oils used for industrial-commercial purposes (Ur. l. RS, no. 40/99), Regulation on setting of the amount of specific excise duty and the rate of proportional excise duty on cigarettes (Ur. l. RS, no. 50/99) and the Regulation on setting of the excise duty on mineral oils and gas (Ur. l. RS, no. 51/99).

With the entering into force of the Excise Duties Act on 1 July 1999, the legislation on excise duties almost fully complies with the *acquis*, except for that part where the Republic of Slovenia requests a transitional period.

The Excise Duties Act fully complies with Directive 92/83/EEC concerning the types of alcohol and alcoholic beverages on which excise duties are charged and the exemptions from payments. It also fully complies with the directives concerning excise duties on mineral oils (Directives 92/81/EEC, 92/82/EEC and 95/60/EEC).

The Excise Duties Act fully complies with most of the provisions of Directive 92/12/EEC, except for those provisions relating to the internal market and the movement of excise duty products within this market which apply only to Member States. The Republic of Slovenia will amend the Excise Duties Act to comply with these provisions by 31 December 2002 at the latest and - since they are related to actual membership - implement them upon actual accession to the European Union.

The provisions of the Excise Duties Act specifying the types of tobacco products fully comply with Directives 95/59/EEC (amended text of Directives 72/464/EEC and 79/32/EEC), 92/79/EEC and 92/80/EEC. According to the Act, the target excise duty on cigarettes shall be introduced gradually up until 1 July 2005. The Excise Duties Act lays down the rate of excise duty on fine-cut tobacco which is below the European minimum. Certain inconsistencies also exist with regard to the required dimensions of smoking tobacco particles (1.4 mm) and with regard to the precise use of tobacco products for medical purposes.

The provisions of the Excise Duties Act, specifying the levels of excise duty on alcohol and alcoholic beverages fully comply with Directive 92/84/EEC, except for the excise duty on fermented beverages and ethyl alcohol. Compliance of the level of excise duty on selected types of alcohol and alcoholic beverages depends on the SIT - EUR conversion rate. The levels of excise duties in directives are expressed in EUR, whilst in the Excise Duties Act they are expressed in SIT. As a consequence, the Act does not comply with the directive in the part defining the level of excise duty on ethyl alcohol. The Act sets the excise duty on ethyl alcohol at SIT 100,000 for 100% volume content of alcohol per 1 hectolitre of ethyl alcohol, which is at present lower than the minimum European Union Excise Duty (550 EUR which equals around SIT 107,000). This discrepancy is thus a result of the change in the SIT - EUR conversion rate. According to the Act, the Government is allowed to increase the level of excise duty by up to 50% to align it with the level of excise duty set in the directive.

The Republic of Slovenia adopted a new Customs Service Act on 30 June 1999 (Ur.l. RS no. 56/99) which serves as a legal basis for introduction of new working methods and organisation, it increases competencies and regulates the legal status of the Customs Service. Thus, the Republic of Slovenia has provided for greater comparability of its customs service with the services of the Member States.

*Harmonisation of legislation with the *acquis**

The Republic of Slovenia will amend the Excise Duties Act with the provisions relating to the internal market and the movement of excise duty products within the internal market by 31 December 2002 and implement them - since they apply only to Member States - upon actual accession to the European Union. When amended by these provisions, the Act will fully comply with the *acquis* and will be fully implemented upon actual accession to the European Union.

Based on the Excise Duties Act, the Government of the Republic of Slovenia will adjust at least once a year the level of excise duty to changes in the SIT - EUR conversion rate.

In this way, the Republic of Slovenia's legislation on excise duties will fully comply with the *acquis*, except for the excise duties on cigarettes and fermented beverages for which the Republic of Slovenia requests a transitional period.

Request for a transitional period

The Republic of Slovenia requests a transitional period of two and a half years starting on the date which serves as Slovenia's working assumption for accession to the European Union and lasting until 30 June 2005 to introduce the level of excise duty on cigarettes required in Directive 92/79/EEC.

The *acquis* on excise duties lays down an overall minimum excise duty at 57% of the retail selling price for cigarettes. In the Republic of Slovenia, the existing retail selling price of cigarettes includes a 19% value-added tax and a 45% excise duty, which represents, in terms of the overall tax burden, a neutral replacement of the previous taxation system. The Republic of Slovenia decided for a gradual adaptation of value-added tax and the levels of excise duties to European requirements to retain the above-mentioned neutrality of the level of tax burden. Had the excise duties been immediately set at 57% of the retail selling price, this would have resulted in a surge in retail prices and consequently in a large one-off rise in inflation. Given the general threat of a rise in inflation due to introduction of the value-added tax and excise duties, this would be an undesirable development. Moreover, the rise in retail prices could lead to an expansion of the black market, lower sales of existing suppliers and, in turn, a shortfall in public revenues despite higher taxation.

The Excise Duties Act contains the programme for gradual adjustment of the basic excise duty to the minimum excise duty amounting to 57% of the retail selling price by 30 June 2005.

The Republic of Slovenia requests a transitional period of two and half years starting on the date which serves as Slovenia's working assumption for accession to the European Union and lasting until 30 June 2005 to apply the level of excise duty on fermented beverages as laid down in Directive 92/84/EEC.

The introduction of excise duties and value-added tax significantly changes the structure of taxes on alcoholic beverages by selected types of beverages. With a view to retaining, despite the change of system, as neutral as possible an effect on total tax revenues, the Republic of Slovenia has preserved such a level of excise duties on fermented beverages that still provides for this neutrality. During the transitional period, the Republic of Slovenia will align the level of excise duty on fermented beverages with the level charged on wines.

Institutional framework for implementing the harmonised legislation

The Republic of Slovenia has in place all the institutions necessary to implement the *acquis* on excise duties: the Ministry of Finance and Customs Administration of the Republic of Slovenia. The latter will be reinforced and reorganised to suit the needs related to implementation of the *acquis* on excise duties at the latest by 31 December 2002. The reorganisation will be based on the Strategy on Development of Customs Service, the European Commission Blueprints

identifying the key development areas and basic goals thereof, and the existing Analysis of the gap between the current situation in the customs service and the aforementioned European Commission Blueprints.

3. ADMINISTRATIVE CO-OPERATION AND MUTUAL ASSISTANCE

Existing legislation in the Republic of Slovenia

The Republic of Slovenia's legislation on administrative co-operation and mutual assistance fully complies with the *acquis* (Recovery Directive 76/308/EEC; Regulation 218/92/EEC on administrative co-operation in the field of indirect taxation (VAT); and Mutual Assistance Directive 77/799/EEC). It is governed by Customs Service Act (Ur.l. RS no. 56/99) and the Tax Service Act (Ur. l. RS, no. 18/96, 36/96 and 48/98).

184 *Harmonisation of legislation with the acquis*

The Tax Administration of the Republic of Slovenia and the Customs Administration of the Republic of Slovenia have already carried out important organisational changes necessary to apply the system of VAT and excise duties.

The Tax Service Act (Ur. l. RS, no. 18/96, 36/96 and 48/98) and the Customs Service Act (Ur.l. RS no. 56/99) serve as a legal basis for further organisational changes of the Tax Administration of the Republic of Slovenia and the Customs Administration of the Republic of Slovenia, which will permit administrative co-operation and mutual assistance with competent authorities of other Member States.

In the field of taxation, the Tax and Customs Administrations of the Republic of Slovenia are already recipients of technical assistance and take part in the FISCALIS programme.

Institutional framework for implementing the harmonised legislation

The Republic of Slovenia has in place the institutions necessary to implement the *acquis* on administrative co-operation and mutual assistance: the Ministry of Finance, the Tax Administration of the Republic of Slovenia, the Customs Administration of the Republic of Slovenia). However, within the Tax Administration, a special administration unit will be set up by 31 December 2002, responsible for co-operation with the relevant bodies of other Member States (VIES - The Value-added Tax Information Exchange System) and within this unit a department for international exchange of data (CLO - Central Liaison Office). Furthermore, within the Customs Administration, the Republic of Slovenia will set up a special administrative unit for co-operation with Member States in relation to excise duties and collection of customs duties, agricultural levies and excise duties (SEED - System of exchange of excise data). The Republic of Slovenia will reinforce the

staffing, infrastructure and professional capacity of the existing Customs Administration in line with the existing development strategy and programme.

4. MISCELLANEOUS IN INTERNATIONAL PASSENGER TRAFFIC

Existing legislation in the Republic of Slovenia

The field covered by Directive 69/169/EEC on the exemption from turnover tax and excise duty on imports in international travel is in the Republic of Slovenia governed by the Value Added Tax Act (Ur. l. RS, no. 89/98), the Excise Duties Act (Ur. l. RS, no. 84/98) and the Regulations on application of exemptions from payments of value-added tax and excise duties in international passenger traffic (Ur. l. RS, no. 40/99) issued thereof. Legislation in this field complies with the directive, except for the part relating to the value limits up to which the goods contained in the personal luggage of travellers coming from Member States or third countries are exempt from paying value-added tax and excise duties.

The Republic of Slovenia has no legislation covering the exemptions from value-added tax and excise duties on imports of small consignments of goods of a non-commercial character from third countries governed by Directive 78/1035/EEC.

The fields of tax exemptions for certain means of transport temporarily imported into one Member State from another governed by Directive 83/182/EEC and tax exemptions applicable to permanent imports from a Member State of personal property of individuals governed by Directive 83/183/EEC are in the Republic of Slovenia's legislation covered by the Value Added Tax Act (Ur. l. RS, no. 89/98), the Regulations on the implementation of Articles 29 and 30 of the Value Added Tax Act (Ur. l. RS, no. 40/99), Customs Act (Ur. l. RS, no. 1/95, 28/95 and 32/99) and the Regulation on the implementation of the Customs Act (Ur. l. RS, no. 46/99). The legislation in this field thus fully complies with the *acquis*.

Harmonisation of legislation with the acquis

The legislation of the Republic of Slovenia laying down the value limits up to which goods contained in the personal luggage of travellers coming from Member States or third countries are exempt from paying value-added tax and excise duties (Directive 69/169/EEC) will be brought into line with the *acquis* by an amendment to the Regulations on application of exemptions from payments of value-added tax and excise duties in international passenger traffic (Ur. l. RS, no. 40/99) by 31 December 2002 at the latest and implemented, given the fact that they only apply to Member States, upon actual accession to the European Union.

With regard to the exemptions from value-added tax and excise duties on imports of small consignments of goods of a non-commercial character from third countries, the Republic

of Slovenia will suitably amend the Value Added Tax Act and implement the amendments by 31 December 2001 at the latest

Institutional framework for implementing the harmonised legislation

The Republic of Slovenia has in place all the institutions necessary to implement the *acquis* on excise duties: the Ministry of Finance and the Customs Administration of the Republic of Slovenia. The latter will be reinforced and reorganised to suit the needs related to implementation of the *acquis* on excise duties at the latest by 31 December 2002. The reorganisation will be based on the Strategy on Development of Customs Service, the European Commission Blueprints identifying the key development areas and basic goals thereof, and the existing Analysis of the gap between the current situation in the customs service and the aforementioned European Commission Blueprints.

5. DIRECT TAXATION

Existing legislation in the Republic of Slovenia

The Republic of Slovenia's legislation only partly conforms with the *acquis* concerning indirect taxes on the raising of capital (Directive 69/335/EEC). Partly it is covered by the Court Fees Act (Ur.l.SRS, no. 30/78, 36/83, 46/86, 34/1988, 1/90, Ur.l. RS –old, no. 14/91, Ur.l. RS, no. 38/96, 20/98). Court fees charged on raising of capital are in the above directive listed among the exemptions (Article 12) for which the Member States may charge duties related to the costs of administrative procedures. The Republic of Slovenia does not apply any other duties on the raising of capital which are covered by the directive and would require harmonisation.

The Republic of Slovenia's legislation on mergers does not yet conform with the Mergers Directive (90/434/EEC).

The field covered by the Parent and Subsidiaries Directive 90/435/EEC is in the Republic of Slovenia's legislation governed by the Corporate Income Tax Act (Ur. l. RS, no. 72/93, 20/95, 34/96) and the Tax Procedure Act (Ur. l. RS, no. 18/96, 78/96, 87/97, 35/98, 76/98, 82/98, 91/98, and 1/99). The existing solutions do not comply with the directive and apply only to legal persons which are the residents of the Republic of Slovenia.

*Harmonisation of legislation with the *acquis**

The Republic of Slovenia will adopt amendments to the Corporate Income Tax Act and the Tax Procedure Act by 31 December 2000 at the latest and thereby bring its legislation into line with the *acquis* on the system of taxation of companies (Directives 90/434/EEC and 90/435/EEC). Harmonised legislation will be implemented upon actual accession of the Republic of Slovenia to the European Union.

If the harmonisation of taxation with the Mergers Directive and the Parent and Subsidiaries Directive were to take place

before accession, the taxes on investment by companies from the European Union in the Republic of Slovenia would be reduced, whereas the companies from the Republic of Slovenia would not enjoy the same benefits in the European Union. As a consequence, the budgetary revenue would drop only on the side of the Republic of Slovenia.

The Republic of Slovenia expresses the readiness to accede to the Arbitration Convention (90/436/EEC) upon accession to the European Union.

The Republic of Slovenia is familiar with the Council Conclusions (98/CZ/01) on the Code of Conduct for business taxation and is prepared to co-operate, to the extent within its powers, with the European Commission in any further activities related to the Code of Conduct.

Institutional framework for implementing the harmonised legislation

The Tax Administration of the Republic of Slovenia is the competent authority for implementation of legislation on company taxation. The Republic of Slovenia will reinforce its staffing, professional and technical capacity and reorganise it in a way to be able to implement the *acquis* in this field by 31 December 2002 at the latest.

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Ljubljana, 26 July 1999

