



Mobility: Tax alert

December 2024

Slovenia

Legislative changes impacting mobility workers and Slovenian employees receiving income from HQ incentive share, option or cash-based awards

Executive summary

The Slovenian Parliament has confirmed changes to the Personal Income Tax Act and Tax Procedure Act.

Effective 1 January 2025, new regulations will apply regarding the definition of payer of tax (i.e., withholding agent), primarily impacting outbound assignees or employees receiving share related incentive payments e.g., from group HQ.

These changes may impact the cost profile of the Slovenian workforce, require employers to operate complex payroll procedures, potentially change incentive models, and necessitate the setup of HR-related processes to maintain a comprehensive compensation overview for assignees or employees.

Background

Until now, income received from abroad by Slovenian employees (i.e., individuals employed by a Slovenian entity) was subject to personal income tax collected through a special monthly tax return process, and social security contributions were due via a special reporting procedure both conducted outside of the employer's payroll.

These changes impact the reporting process for employment income arising abroad, which mainly concerns mobile workers with Slovenian employers and Slovenian employees included in various types of group incentive plans.

Details

Based on confirmed changes to the Personal Income Tax Act and Tax Procedure Act, the changes will apply from 1 January 2025:

- ▶ Income received from a non-Slovenian entity by mobile employees employed by a Slovenian employer will be reportable within the monthly payroll by the employer, subject to both personal income tax and social security contributions. This may increase employment costs and impact HR processes, and other areas.
- ▶ Income from incentive plan arrangements such as shares, and option awards received from a non-Slovenian entity by employees of a Slovenian entity will be subject to payroll reporting. However, the tax treatment generally depends on the method chosen by the employer.

- ▶ Under certain conditions, beneficial treatment can be applied which enables only 65% of the incentive income to be considered as taxable income of the employee. If such beneficial treatment is utilized, the employer must report the income via payroll, which may result in a need to gross up the incentive income, leading to higher costs for the employer.
- ▶ The employer may decide to avoid grossing up the income by reporting the income via payroll but choosing not to pay withholding tax and social security via payroll. Instead, the employer should notify the tax authority via a special procedure. Based on such reporting, the tax authority would issue a tax assessment for the respective personal income tax and social security contributions due directly to the employee.

Next Steps

Slovenian employers and international organizations with Slovenian subsidiaries should closely review mobility compensation packages and income received by their employees from abroad and implement processes to correctly capture such income in the monthly payroll.

For incentive plans, Slovenian employers must decide on the approach to be taken, as the decision may have a high-cost tax impact on either the company or the employee.

Please contact EY for further information.

Mojca Lukac
 Partner, People Advisory Services
 Tel: +386 41 332 396
 Email: mojca.lukac@si.ey.com

Matej Kovacic
 Partner, Tax and Law Services
 Tel : +386 41 395 325
 Email : matej.kovacic@si.ey.com

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