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Newsletter

Tax relief for investment in digital and green transition

CONTENT

From 1 January 2022, all corporate taxpayers and sole entrepreneurs (except those using flat rate tax expenses to determine their tax base) are entitled to so-called **tax relief for investment in digital and green transition**. The legal base for it is set out in Article 55c of the Corporate Income Tax Act (slo. ZDDPO-2) and Article 65a of the Income Tax Act (slo. ZDoh-2). The specific descriptions and conditions are published in the Regulation on the application of tax relief for investments in the digital and green transition (Official Gazette of the Republic of Slovenia, No. 60/22) (hereinafter: **The Regulation**).

The relief is primarily intended to encourage EU companies to act responsibly in order to achieve the 2050 climate neutrality goal. The amount of the tax relief is **40 % of the investment in the year of purchase**, up to a maximum of the allowed taxable base. All tax reliefs together cannot reduce positive tax base for more than 63 %.

The tax relief is mutually exclusive with the ***Tax relief for investment in R&D*** (Art. 55 ZDDPO-2) and the ***Tax relief for investment - Art. 55a*** (ZDDPO-2) in case the same asset or investment is involved.

The relief **is not applicable** to investments financed by subsidies from the national, municipal or European budgets. If the investment is only partly financed by subsidies, the relief may be applied to the extent to which the investment is financed by own resources. Own resources also include credits or loans.

The (rest of) relief for green and digital transition **cannot be carried forward**, which is different from the so-called **Tax relief for investment - Art. 55a**, which can be carried forward to the next 5 business years, but has the limitation on the holding period of the assets, which is minimum 3 years.

The taxable person submits the form for the tax relief to the tax authority together with the corporate income tax return (DDPO) or the sole entrepreneur income tax return (DDD).

The specific investments in the digital and green transition are described in more detail below:

1 INVESTING IN CLOUD COMPUTING

The Cloud Computing Investment Relief is available when **setting up and upgrading a cloud computing system.** The purpose of providing cloud computing services is primarily to enhance the productivity and efficiency of the business (either for updating, repairing or improving software).

The taxable person can only benefit from the relief on condition that the purchased equipment complies with the standards set out in the framework for the measurement and reporting of greenhouse gas emissions **(SIST EN ISO 14067 or SIST EN ISO 14064-2).**

AMOUNT ELIGIBLE FOR THE TAX RELIEF
Cost of purchase of software
Cost of support services for the operation of the cloud
Cost of initial set-up/upgrade of services
Staff training costs
AMOUNT NOT ELIGIBLE FOR THE TAX RELIEF
Installation of software
Cloud rental

1.1 An example of investing in cloud computing

The company has purchased a **new energy-efficient server** to set up a computing cloud. In order to operate the cloud, they had to **invest in software and hardware** for which they can claim tax relief. They will also run a **training course for employees** on best practices for energy efficient management of IT infrastructure. In case costs are incurred for the **design or installation of cloud computing services,** this amount could also be included in the amount eligible for the tax relief.

2 INVESTING IN BIG DATA AND ARTIFICIAL INTELLIGENCE

This type of investment consists of purchase and development of software that generates specific forecasts, recommendations or content and has an impact on the environment with which they interact.

AMOUNT ELIGIBLE FOR THE TAX RELIEF
Costs of purchasing software
Costs of personnel working on development projects
Purchase of materials and services related to the research activity + costs of support services
Costs of training for research purposes
Costs of contracts with external experts and researchers
Costs of contracts with R&D organisations for the implementation of research activities
AMOUNT NOT ELIGIBLE FOR THE TAX RELIEF
Cost of purchasing licences

The benefit may **not be claimed** in the case of investment in software which would involve the use of **subliminal techniques to influence people**, to exploit people's vulnerabilities, to allow reward or punishment based on points, and to allow remote biometric identification.

2.1 An example of investing in big data and artificial intelligence

A healthcare services company has opened a new development department. Their aim is to focus on the use of **artificial intelligence and data analytics** to develop new innovative solutions. These solutions would help workers to diagnose diseases and optimise healthcare processes. The amount of the tax relief would include all **costs related to the purchase of the software and the work of the people involved on the project.** The costs of training the staff and cooperating with external experts working on the project would also be eligible for tay relief in digital transition.

3 INVESTING IN ENVIRONMENTALLY FRIENDLY TECHNOLOGIES AND DECARBONISING THE ENERGY INDUSTRY

This group of investment includes investment in energy sources and storages, nuclear fusion and distribution networks.

3.1 INVESTING IN RENEWABLE ENERGY SOURCES

This includes investment in **equipment** for generating electricity from **green energy sources** (from solar panels, wind, marine, biomass, non-fossil fuels and hydrogen) **and in cogeneration systems** using renewable energy sources. Cogeneration is a system for the **co-production of electricity and heat**, usually used for residential districts.

AMOUNT ELIGIBLE FOR THE TAX RELIEF
Cost of purchasing equipment
Cost of support services for setting up and operating the electricity production equipment

3.1.1 An example of investing in green energy sources

The company wants to contribute to sustainable development to ensure a reduction in its carbon footprint. They decide to **invest in equipment to generate electricity using wind turbines**. The investment would amount to **EUR 50 000** (cost of the equipment and support services) and the tax relief for the green transition would therefore be **40 %** or **EUR 20 000** in the year of investment only.

3.2 INVESTITION IN STROMSPEICHER

This includes investment in **electricity or thermal energy storage** and support services for the operation and use of the storage. A storage device is considered to be a device that stores electrical energy and subsequently returns it in the form of electricity.

AMOUNT ELIGIBLE FOR THE TAX RELIEF
Cost of purchasing a storage container
Cost of purchasing support equipment and services

3.2.1 Example of investing in energy storage containers

A company decides to invest in **battery-based electricity storage system** to support renewable energy sources such as solar and wind farms. This requires the **purchase of storage batteries and the related support services** to

ensure the operation of the storage systems. A company can claim the tax relief for the year in which the batteries are purchased.

If the deduction would represent a large amount and the company would like to claim the relief in the following year, it would be worthwhile to benefit from the investment deduction under *Art.55a ZDDPO-2*, which is also 40 % of the investment, and part of the unused deduction can be carried forward to the next 5 years.

4 INVESTING IN PUBLIC AND PRIVATE TRANSPORT

Investments in all emission-free vehicles of **categories M and N** (motor vehicles with at least 4 wheels for the transport of passengers and goods) are considered as investments in public and private transport. The categories are further subdivided into several subcategories, which determine the number of seats and the weight of the vehicle. An example of an M1 category would be a **Tesla Model S**; an N1 category includes vehicles designed to transport goods, e.g. the **Nissan e-NV200**.

4.1 Example of savings at the company and employee level when investing in an electric vehicle vs. fossil fuel vehicle

Buying an electric car also brings certain benefits in combination with the benefit of the tax relief in green transition.

Firstly, there is a right to **deduct input VAT for all electric vehicles** with a value of up to **€80,000**, including VAT and other charges already accounted for. In the case of concurrent use of the car for private purposes, including travel to and from work, only the VAT on private journeys needs to be calculated and paid once a year.

ABC d.o.o. is considering buying a new car for an employee. The company is choosing between a **Tesla Model S electric car** and an **Audi A6 fossil fuel vehicle.**

- **VAT**

If the company buys a Tesla, VAT can be deducted as it is a zero-carbon vehicle up to a value of **€80,000 with VAT and other charges already included.** If the Tesla model would be more expensive than €80,000, the input VAT would not be deductible.

If the employee also uses the **Tesla for private drives**, the company must calculate the VAT on private use at least once a year, at the latest in the VAT-O return for December, by (1.) determining the kilometres driven for private purposes (2.) determining the VAT taxable base as the no. of KM driven for private purposes multiplied by non-taxable amount of the reimbursement of transport costs for business travel (currently € 0.43).

There is no need to keep driving records for the **AUDI A6** if a **fringe benefit is calculated**. However, mileage records for private and business use are necessary if **the fringe benefit is reduced**, e.g. driving less than 500 km per month for private purposes.

	TESLA	AUDI
Price excluding VAT	65.000 €	65.000 €
VAT	14.300 €	14.300 €
Entitlement to deduct input VAT	YES	NO
Non-business travel and keeping of records	YES	NO (in case of a fringe benefit)

- **CORPORATE INCOME TAX**

ABC d.o.o. can claim either the **Green Transition Tax Relief** or the **Tax relief for investment** - **Art. 55a** on the purchase of a Tesla, both up to a maximum of **40 % of the purchase price**, and thus pay a **lower corporate income tax.** The costs for the private use are **tax deductible expenses** in case of Tesla. However, this is only the case if the Tesla use is granted to the employee.

	TESLA	AUDI
Price excluding VAT	65.000 €	65.000 €
VAT	14.300 €	14.300 €
Tax relief on CIT	40 % Green and Digital Transition Tax Relief / Investment Tax Relief	No tax relief
Costs related to private use of the vehicle	Tax deductible expenses; if not more than 25% of the shareholder	Tax deductible expenses; if a fringe benefit is charged

› **PERSONAL INCOME TAX**

Another important benefit to buy Tesla (but not a hybrid) is that the user of the vehicle does not pay a fringe benefit, regardless of the purchase price of the vehicle. **The fringe benefit for a completely electrical car is zero.**

The **fringe benefit** for private use of a **hybrid or other fossil-fuel vehicle is 1.5 % of the purchase price of the vehicle** for each month.

In the 2.-4. year, the employer reduces the tax base by 15 %, and in 5.-8. year after purchase the car the tax base is reduced by a further 10 %. In subsequent years, the tax base is equal to 10 % of the purchase price of the vehicle.

If the employee drives less than 500 km for private purposes, the purchase price is reduced by 50%. If the employee is provided with fuel for private journeys, the purchase price is increased by 25 %.

In the example below, **when buying an Audi**, we charge the bonus for the first month of use. The bonus would be **1,5 % of the purchase price**, i.e. EUR 1,190.

Assuming employee's gross salary of €3,000 and granted electric car compared to a fossil fuel car, the employer saves €192 per month in social security contributions.

The savings are even higher on the **employee's side**. There is a difference of **€550**.

	SALARY + TESLA	SALARY + AUDI	Difference
	EUR	EUR	EUR
Employer SSC - 16.10%	483	675	-192
Gross amount	3000	3000	
Fringe benefit	0	1190	
Gross salary	**3000**	**4190**	
Compulsory health care contribution	-35	-35	
Employee SSC - 22.10%	-663	-926	-263
General tax relief	-417	-417	
Income tax base	1885	2812	
Income tax	-417	-705	-288
Net salary	**1885**	**1334**	**-550**

The public and private transport investment amount also includes **emission-free motor vehicles of category L** (two- and three-wheel vehicles, e.g. electric scooters, mopeds, tricycles) used **for the delivery of goods or services.**

The **construction of charging infrastructure** for alternative fuels and the purchase of equipment for the digitisation or construction of a **public bicycle rental system**, e-bikes, e-scooters and co-use vehicles also counts eligible for the investment in green and digital transition.

AMOUNT ELIGIBLE FOR THE TAX RELIEF
Vehicle purchase costs
Construction and equipment costs (for the operation of charging infrastructures)
Software purchase costs for the digitalisation of vehicle fleets
Software purchase costs
Staff work on development projects
Purchase of materials and services related to research activities + costs of support services
Costs of training for research purposes
Costs of contracts with external experts and researchers
Costs of contracts with R&D organisations for the implementation of research activities
AMOUNT NOT ELIGIBLE FOR THE TAX RELIEF
Investing in vehicles of this kind, in case they carry fossil fuels

4.2 An example of investing in public and private transport

A company decides to buy electric vehicles for its **service, car-sharing and delivery business**. The project involves the purchase of electric vehicles (category M) and the construction of charging infrastructure. The vehicles are normally available for rental through a car-sharing app and for delivery services in city centre.

The company can claim a tax relief for investing in digital and green transition. It can benefit from the allowance up to **40 % of the purchase price of the vehicles in the year of purchase.**

5 INVESTING IN ENERGY EFFICIENCY OF BUILDINGS

This type of investment encourages investment in energy-efficient buildings. For this purpose, the investments listed in the **Regulation on the application of tax incentives for investments in the digital and green transition**, which defines the energy characteristics (U-value) of building materials (doors, windows, external walls, etc.), appliances, pumps, and other elements necessary for the construction and maintenance of real estate, are considered.

The U-value of doors and windows is determined and calculated according to certain standards. It expresses how much heat passes through a window or door per unit area. The lower the U-value, the better the thermal insulation. For example, investments in windows with a U-value less than or equal to 1.0 W/m2 K are considered as investments in energy efficient buildings.

More detailed information and conditions for individual elements and systems can be found in **Article 6 of the Regulation**.

5.1 An example of investing in energy efficient buildings

The company wants to renovate part of its production facility, **replacing all windows and doors and installing a heat pump**. In this case, it can claim a tax relief provided that the investments **meet the conditions** set out in Article 6 of the Regulation.

The windows must comply with a U-value of less than or equal to 1,0 W/m2 K; the doors with a U-value of less than or equal to 1,2 W/m2 K; and the heat pumps must comply with the technical criteria for the eco-design requirement for air-conditioners.

6 INVESTING IN OTHER CLIMATE NEUTRAL AREAS

There is also a tax relief for **investments in equipment for sustainable farming.** The investments referred to in the Regulation are the construction or modernization of irrigation systems and the necessary equipment, hail and frost protection systems, the construction of heating or cooling systems and the purchase of equipment intended for agricultural production and contributing to the reduction of greenhouse gas emissions, with the aim of implementing organic farming and grassland habitat protection.

It should be noted that fossil-fueled agricultural equipment and machinery **are not included** in the investment amount.

6.1 An example of investing in other climate neutral agricultural projects

The company, which implements advanced technologies for sustainable agriculture, wants to improve the efficiency of agricultural production and reduce the impact of climate change. They are working on a project involving **the construction of water-efficient irrigation and hail-prevention systems**. For this purpose, they need certain equipment and machinery, which is counted towards the amount eligible for the tax relief (except for fossil fuel-powered equipment and machinery).

7 EXPECTATIONS 2025

Given the changes in taxation foreseen as of 2025, changes are also expected in the area of green and digital transition. The suggestion is to extend the relief period to **five years**.

The fringe benefit for electric company cars will be calculated at 0.75 % of the purchase price of the electric vehicle from 2030.

A **zero-fringe benefit** will also be applied from 2025 to **electric and ordinary bicycles** in order to encourage the use of zero-emission vehicles.

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