



# MANUAL FOR MENTORS

BOOSTING EU ECONOMY THROUGH TRAINING OF FOREIGN  
DIRECT INVESTMENT (FDI) ADVISORS

РЕПЛИКА



**PAR**  
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## Introduction

FDI has an essential and growing role in the global economy. According to the OECD, FDI is a key driver of international economic integration and with the right policy framework, it can provide financial stability, promote economic development and enhance societal well-being<sup>1</sup>.

To increase and boost foreign investments, it is crucial to offer an innovative, diverse and investor-friendly environment, and to provide continuous training and education for employees involved in attracting and supporting foreign investors. FDI advisors and other employees in this field should be adequately educated in a wide range of services that are of direct interest to foreign investors: economic and financial issues, legislative requirements and costs related to the opening and operation of a business, the labour market situation, real estate investments and other relevant topics.

### What is the aim of the Manual for mentors?

The aim of this Manual is to support learners to develop their professional skills and knowledge to increase their productivity in the field of attracting and supporting foreign investor. More specifically, after reading the Manual, the learners will:

- Acquire new, specialized knowledge and skills
- Develop their role as effective advisors
- Build their capacity to transfer the knowledge to future FDI advisors.
- Identify the needs for further education and development
- Contribute to increasing the national GDP and in the development of new jobs

The Manual covers the following chapters and it is country specific:

1. Opening a company
2. Legislation requirements and costs regarding running the business
3. Accountancy
4. Labour market and employment
5. Work and living permit, family relocation
6. Funding opportunities
7. Real estate investment
8. Basics of counselling and negotiation skills
9. Basics about blended learning
10. Introduction to national vocational qualification system

The Manual targets FDI advisors' mentors that have knowledge, skills and competences to provide relevant support and guidance to the future FDI advisors.

### What is the BOOST EU program?

“Boosting EU economy through training of Foreign Direct Investment (FDI) advisors” is a program aimed at increasing foreign investments by developing a unique training program, which will equip FDI advisors with all the relevant knowledge, skills and competences needed

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<sup>1</sup> OECD (2009), “Foreword”, in OECD Benchmark Definition of Foreign Direct Investment 2008: Fourth Edition, OECD Publishing, Paris.

to provide all-in-one support for internationalization and relocation of foreign investors in one place.

Program objectives:

- To improve quality and access to vocational education and training.
- To improve the knowledge and skills of employees in relevant consulting companies.
- To improve the employability of adult learners.

Based on the extensive international survey, we developed a training program with learning materials for mentors, a training program with learning materials for FDI advisors, and initiatives to include FDI advisors' training program into national educational schemes in Slovenia and Cyprus.

International dimension, ensured by a consortium of partners and other relevant organizations from Slovenia, Croatia and Cyprus, enriches the program by broader overview, comparison and understanding of foreign investors' needs.

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For the sake of comprehension and clarity, the text will not use both the male and female forms; the personal nouns and pronouns used throughout the BOOST EU documents will therefore also apply in their female and male form.

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## **Module 1: TYPES, PROCEDURES AND COSTS OF OPENING A BUSINESS**

Upon successful completion of this module, you will learn what knowledge F.D.I. advisors should have regarding the types of companies in Slovenia, as well as of the procedures for establishing a particular type of business and related costs.

### **Glossary**

**D.d.** – Shareholding company

**D.n.o.** - Unlimited company

**D.o.o.** - Limited liability company

**FURS** – Financial Administration of Republic of Slovenia

**K.d.** - Company with share capital

**K.d.d.** – Limited partnership with share capital

**S.p.** – Sole proprietor

**ZGD** - Companies Act (currently valid version: ZGD-1)

**ZPIZ** – Pension and disability Insurance Act (current valid version: ZPIZ-2)

**ZZVZZ** – Health care and health insurance Act

## 1.1. TYPES OF BUSINESS ENTITIES

There are 6 different types of companies in Slovenia:

- limited liability company (d.o.o.),
- unlimited company (d.n.o.),
- share holding company (d.d),
- company with share capital (k.d.),
- limited partnership with share capital (k.d.d.),
- European limited liability company (Societas Europea – S.E.).

Under the Companies Act, a company is a legal entity that independently carries out a profitable activity on the market as its exclusive activity. Legal entity can be organized in one of the following forms:

- as a personal company,

or

- as capital companies.

Most of the companies in Slovenia are established in the form of a limited liability company (d.o.o.). The majority of foreign investors also choose this form.

A sole proprietor (s.p.) is also a common form, however, it is not a legal entity.

Throughout the module, we shall focus on these two most common forms, while information on other forms of business entities can be found in Annex 1.1.

### 1.1.1. Sole proprietor

#### **Theoretical framework**

A sole proprietor is a business entity, but is not a legal entity. It is a natural person who performs a profitable activity on the market.

He is taxed with income tax.

A sole proprietor is a self-employed person who does not pay salaries, bonuses or other bonuses to himself that would otherwise belong to regular employees in other forms of business entities. Although he must be included in the compulsory insurance system, he is not employed in his business entity and therefore cannot claim his salary as a cost.

In this form of business, it is interesting to know that a sole proprietor can freely dispose of earnings and can transfer it to personal consumption whenever necessary. However, he is responsible for his business operations with his entire assets, which in the event of bad business poses a risk of losing personal property.

Running a business as a sole proprietor is easy as it only requires the management of basic accounting records and compliance with the rules that apply to the charging of services.

## Important / exceptions

Although the establishment of this business entity is simple and, in principle, there are no specific limitations for setting it up, certain persons cannot register an s.p. These are:

- persons who have been included in the list of tax reports non-submitters or non-taxpayers for the last 12 months.
- persons holding a share of more than 25% of a company, published in the list of tax reports non-submitters or non-taxpayers for the last 12 months.
- persons who were involved with more than 50% of the direct share in the capital of a company which was removed from the court register in the last year without liquidation on the basis of the Financial Operations Act, insolvency proceedings and forcible winding-up.
- persons who have been fined twice in the past three years with a final decision of the Labour Inspectorate of the Republic of Slovenia or the Financial Administration of the Republic of Slovenia in connection with an offense pertaining to work and illegal employment.
- persons who have been bindingly convicted to a prison sentence for certain criminal offenses listed in item 1 of the first paragraph of Article 10 a of the Z.G.D.-1.

## Tips from professionals

This type of business entity is worth considering if the future business does not pose a risk to the loss of an entrepreneur's personal assets, in case of a lesser planned annual turnover (for example up to 50,000 euros per year), or if the business activity will be simple (for example renting a property or intellectual services).

Under certain conditions a sole proprietor can opt for flat rate taxation. In this case he is not required to keep accounting books. This is also important from a tax perspective.

In 2018, this option can be selected by sole proprietors, who have no employees and have less than 50,000 euros of annual turnover.

80% of the annual turnover is recognized as costs, while 20% of annual turnover is taxed with 20%. This actually represents a 4% tax on the total annual gross income.

As these provisions often change, F.D.I. advisors should keep up-to-date and check them regularly on the website of the [Financial Administration of the Republic of Slovenia](#).

In the presented table, please, check the advantages and disadvantages of this type of business entity.

Advantages	Disadvantages
No capital needed	An entrepreneur is liable for his business obligations with all his assets, including private ones
Easy cash disposition	Taxation with income tax

Easy establishment	Unsuitable for setting up with multiple founders
Lower administrative costs	Sole proprietor and the same natural person cannot do business with each other
Can be established by almost anyone	Lower credibility compared to other business entities
Possibility of enforcing flat rate taxation	Aggregation of turnover with family members of a sole proprietor in the case of using tax reliefs and simplifications (for example flat rate taxation)

## 1.1.2. Supplementary sole proprietor

### Theoretical framework

Supplementary sole proprietor is a natural person who is regularly employed by another employer on a full-time basis. He is therefore insured on a different basis, however, in this way he can carry out various additional profitable activities. This status enables the business activities to be carried out legally and with very low costs.

Establishment of a supplementary sole proprietor make sense when a person performs smaller scope of business activities in addition to regular employment (for example renting out a real estate).

Legal status, rights and duties of a supplementary sole proprietor and a (full) sole proprietor are the same. However, there are some differences:

- supplementary sole proprietor is fully employed full-time by another employer.
- the types and amount of social contributions are different. Supplementary sole proprietor only pays a lump-sum contribution for insurance against injury at work and for occupational diseases according to [Z.P.I.Z.-2.](#) and [Z.Z.V.Z.Z.](#) The total sum of both insurances combined in 2018 amounts to 67,38 euros.

Up-to-date information can be obtained from the website of the [Financial Administration of the Republic of Slovenia](#).

### Important / exceptions

Supplementary sole proprietor is usually created by those who are not satisfied with work or earnings in their regular employment, or are interested in entrepreneurship and want to start their own business without great risk.

### Tips from professionals

Supplementary sole proprietor is the most appropriate business form for someone who is, for example, renting out a real estate. By registering a status of a supplementary sole proprietor the person is taxed lower than if he was renting the same real estate as a natural person without the status.

It is also suitable for other "afternoon" business activities, if they are not prevented by an individual's employment contact.

### **1.1.3. Limited liability company (L.t.d.)**

#### **Theoretical framework**

Limited liability company is a legal entity the founding capital of which consists of the founders' contributions.

Founding capital must be at least 7,500 euros, as defined by the [Companies Act \(ZGD-1\)](#).

A limited liability company may be set up by one or more natural or legal persons. The value of a founders' contributions may vary, however, the lowest contribution is set at a minimal amount of 50 euro. Contribution can be in cash or provided as an actual input or actual takeover, e.g. investment in the form of real estate, movable property, rights, business or part of a business...

Unlike sole proprietors, limited liability company founders are not liable for business activities with all their assets, but only with the capital of the company.

#### **Important / exceptions**

Among the founders of a limited liability company, there must be at least one shareholder and at least one managing director (it is not compulsory for either of them to be Slovene national and/or to reside in Slovenia).

The shareholder and the managing director may be the same person.

Relations among founders are set up by the Founding Act.

#### **Tips from professionals**

Establishment of a limited liability company is very safe from the point of view of protection of personal property. This is very important when there is more than one founder; as wrong business moves of the influential founders harm all the other ones as well.

In the case of a one-person company, it is worthwhile to evaluate all the effects of different business forms and to decide whether it would be more appropriate to set up sole proprietor or limited liability company.

Take a look at the presented comparison of the two business entities! FDI advisors should have it in mind these advantages and disadvantages while they are supporting each individual potential investor.

	<b>s.p.</b>	<b>L.t.d.</b>
<b><i>PERSONAL RESPONSIBILITY</i></b>	Not a legal entity, liable with personal asset	Liable only with capital contribution, capital of the company
<b><i>FOUNDING CAPITAL</i></b>	Not needed	Minimum € 7.500
<b><i>Founding costs</i></b>	None.	For simple ownership – free; For complex ownership – notary needed – official tariff
<b><i>Taxation</i></b>	Income tax.	Corporate income tax.
<b><i>Bookkeeping</i></b>	Simple or double-entry bookkeeping. Flat rate taxation is possible – in that case no bookkeeping is needed.	Double-entry bookkeeping
<b><i>Disposal of money on the account</i></b>	Complete.	Not on disposal – money is property of the company.
<b><i>Salary</i></b>	There is no salary for an s.p.	Salaries for employees are paid and regarded as the company's cost.
<b><i>Loans, funds on public tenders and calls for proposals</i></b>	Difficult, applying possible only for a limited number of calls and tenders.	It's easier to get a loan and also easier to apply for tenders and calls.

## 1.2. PROCEDURES AND COSTS OF ESTABLISHING BUSSINES ENTITIES

Before establishing a business entity, regardless of it's chosen form, it is necessary to obtain information about any possible additional conditions necessary for a specific business. The conditions are published on the [eVEM](#) web page.

In the chapter we will focus on the most common entities, information about the establishment procedures and costs can be found in Annex 2.

### 1.2.1. Registration of a sole proprietor (s.p.) or a supplementary sole proprietor (d.s.p.)

#### Theoretical framework

##### Conditions

A sole proprietor status can be obtained by any person capable of doing business, insofar as the person is not a tax debtor or is not on the list of tax defaulters at the Financial Administration of Republic of Slovenia.

In some business sectors (intellectual services for example) there are no specific conditions for pursuing the business. Proprietor only needs a business place - he can even do business from home.

However, in the case of a number of sectors, certain conditions must be fulfilled before starting the business (specific permits, licences to be obtained).

The conditions are published on [eVem](#) web page.

##### Procedure

Obtaining a sole proprietor status is very easy – it takes only three steps which can all be done on one of the VEM points or via the e-VEM portal.

For registration via the e-VEM portal, a digital certificate is required which can be ordered by any natural person for free at one of the administrative units. One only needs a personal document.

The first step is **registering in the AJPES Business Register**. This is done by "[Application for Entry into the Business Register of Slovenia](#)" form which can be in electronic or paper form.

The second step is to **register with the Financial Administration** of the Republic of Slovenia. Sole proprietor needs to define locations where the business activities will take place and where the revenues will be generated, as well as whether he has any business units or capital investments in home country and/or abroad; whether he has any accounts abroad and their numbers; and all potential business related persons.

Sole proprietor also estimates the amount of annual turnover which is the basis for determining the advance tax payment. In addition, he decides whether to claim the actual costs taxation or a flat rate taxation. The majority of new sole proprietors opt for the second as it simplifies their business operations (no accounting is needed) and the tax rate is low (only 4% of the annual turnover).

The third and last step is **registration into the Health Insurance** at the Health Insurance Institute of the Republic of Slovenia. Registration is done with the form entitled "[Registration in compulsory social insurance - M1 form](#)".

Sole proprietor receives the decision on the business registration a day after the establishment. If in a hurry... he can personally pick it up on the same day at the local AJPES office.

The establishment procedure for a supplementary sole proprietor is the same, except that in this case the entrepreneur needs to fulfil the requirement that he is employed full-time with another employer. The consent of the employer is not necessary.

#### Documentation needed

In order to enter into the business register, the future sole proprietor must bring a valid personal identification document and a Slovenian tax number to one of the VEM points; and state the following:

- proposed date of entry which is later than the date of filing the application for registration and is not longer than three months from the date of filing the latter.
- firm and abbreviated firm (name of the business entity).
- information on the business address.
- information about the proprietor and the business entity's representative (name and surname, personal identification number, residence address and tax number).
- all business activities that he/she wishes to pursue.
- data on other parts of the proprietor as units of the business register in accordance with the law governing the Business Register of Slovenia.

He must also provide:

- a statement by the proprietor that he/she has no outstanding commitments from previous business operations.
- in case the foreigner is not the owner of the real estate on which the company's address is located also a verified consent of the real estate owner.

#### Timeframe

In case that there are no specific requirements regarding the premises or business performance, and that the future proprietor has provided all the necessary documentation and information, the entire procedure can be carried out at one of the VEM points in only one hour.

### Where to apply?

Registration is done at one of the [VEM](#) points or via the [eVEM](#) portal.

At a VEM point, the whole procedure is carried out. VEM employees submit applications to AJPES, FURS and ZZZS (all three steps needed for establishment).

### Costs

At VEM points registration procedures are generally free of charge.

### **Important / exceptions**

A sole proprietor can open a transaction account for business, but use it for both private and business purposes. The transaction account must be public.

If the future sole proprietor is not the owner of the real estate of the business address where he will carry out his activities, he must submit a validated owner's permission to pursue business activities at that address.

### **Tips from professionals**

Before a future sole proprietor visits one of the VEM points, FDI advisor should make sure that he has all necessary documentation.

After the registration, a sole proprietor needs to – as soon as possible – open a business account so that he can start with business financial transactions.

Sole proprietor also needs to select high-quality accounting service provider (except if he opts for flat rate taxation).

If sole proprietor will make business with natural persons and receive payments in cash, he must have a fiscal cash-register which he needs to obtain at Financial Administration of Republic of Slovenia.

## 1.2.2. Registration of a limited liability company

### Theoretical framework

Limited liability company is the most common form of companies registered in Slovenia. It can be established through a VEM point quickly, easily and without a registration fee.

### Conditions

Conditions for establishing limited liability company via one of the VEM points are as follows:

- all funding contributions are in cash and are paid up prior to the submission of the registration form.
- Founders have signed the standard business establishment contract.
- in the case that there is only one founder, the company's decisions are kept electronically.

In case that these conditions are not met, for limited liability company establishment notary is required.

A foreign citizen can set up a limited liability company in Slovenia under the same conditions as Slovenian citizens. Prior to the registration, he only needs to obtain the Slovenian tax number.

### Procedure

All founders and managing directors of the company must be present at a VEM point.

In the event that the founder is a legal person, it's legal representative must be present.

All founders and legal representatives must personally sign the documents at a VEM point, on the same day that all the documents were created (among others the Establishment Act).

After entering the establishment form at VEM point, a temporary or a deposit account needs to be opened at the selected bank. For this, only the Establishment Act is needed. Founders deposit the founding capital (7,500 euros minimum) on the account.

The next step is to send a proof of depositing the founding capital on the temporary account to the VEM point where the procedure was started.

When the founders receive the decision on registration of the company into the Business Register and the tax number of the company, they can convert temporary account with the help of this two documents into a regular business account at the selected bank.

Some of the further steps needed:

- Obtaining a permit to perform a selected business activity, if necessary (please check the requirements for specific businesses [here](#)).

- For a manager without employee status, an application for payment of social security contributions is required.
- Financial Administration of Republic of Slovenia must be notified of the selected bookkeeping system.
- Safety and health at work regulations have to be respected (requirements depend on specific businesses).

### Documentation needed

When registering limited liability company, natural persons needs a personal document, their tax or personal identification number; and an indication of the share of the founding capital.

All legal persons as founders need a short version of the extract from the register of companies, personal documents of their founders and legal representatives, the business tax number, and an indication of the share of the funding capital.

In addition to the above mentioned documents, at the VEM point founders need to provide data on:

- All founders of the limited liability company.
- the limited liability company's legal representatives.
- full name of the company.
- business address.
- planned business activities to be carried out within the company.
- estimated revenues and expenses of the company.

In case that none of the founders is not the owner of the real estate on the location of the business address, a written consent from the owner of the real estate is needed.

At the VEM point, the following documents will be prepared:

- establishment act.
- decision on the business address.
- decision on legal representatives.
- statement of appointment (the statement is issued for each representative separately; in the statement, the representative agrees with the performance of a particular function).
- statement by a founder (the statement is issued separately for each founder; the founder guarantees that he does not have outstanding liabilities to the state from previous businesses).
- form for registration in the tax system at FURS.

### Time frame

After the submission of a complete application to the court the registration decision is, on average, issued within four days.

### Where to apply?

Registration is done at one of the [VEM](#) points or via the [eVEM](#) portal.

### Costs

Registration through VEM points is free of charge.

### **Important / exceptions**

In the event that the founder is not the owner of the facility where the business address of the company is set, he must attach a certified statement from the owner of the premises. In the statement, the owner authorizes the company to operate at this address. The verification of the statement is free of charge at the VEM point.

The statement doesn't need to be verified if the owner of the building is physically present at VEM point or if the founder obtains permission from the Republic of Slovenia, the local community or other competent housing authority.

### **Tips from professionals**

In order to be completely familiar with the procedure and required documentation it is recommended that an FDI advisor prepares all the necessary documentation and personally revise all registration procedures (up to the point of filing the documents to the relevant organizations).

## **1.3. PROCEDURES AND COSTS OF OPENING A BRANCH**

### **1.3.1. Theoretical framework**

A branch is part of a company located in a different location than the company's registered business address. In spite of the fact that a branch is not a legal person, it can pursue all registered business activities on behalf of the founding - parent company.

The registered name of the parent company, the registered name of the branch and the registered branch business address must be used.

Most often, branches are established for the purpose of profitable business activities of a foreign company in Slovenia, since a foreign company can legally operate in Slovenia only if it establishes a branch or an independent new company.

#### Conditions

A branch may be established by a domestic or a foreign legal entity, without any founding capital.

A foreign company and its legal representative need to obtain a Slovenian tax number before registering in the court register.

A foreign company from a non-EU country may establish a branch in Slovenia if it is registered for at least two years in the country of its incorporation.

#### Procedure

The application for registration of a branch needs to be submitted by a legal representative of a company.

Entry into the court register is conducted by a notary.

After the establishment of a branch, a bank account can be opened.

#### Documentation needed

The application for registering a branch must be filed by a legal representative of a company at a notary and must ensure the following information:

- the name and address of the branch.
- an indication of the business activities and operations carried out by the branch.
- name and surname of the person representing the branch and the foreign company.
- identification data of the founder.
- nature and extent of the liability of the founder.
- date of entry and exit of the founders.
- amount of the founder's investment contribution.

The legal representative also needs to present the following documentation:

- proof from the business register where the parent company is registered.
- business report for the last business year (in a short version).
- information on the bank account of the parent company (name of the bank, currency in which it operates, the bank account number).
- copy of the legal representative's passport.
- proof of the company's incorporation.
- tax number of the parent company and information on the activities of the parent company (in case this cannot be deduced from the founding act).
- address of the branch, the branch's business activities (the branch's activities must be the same as the activities of the parent company).
- name and legal form of the parent company and the name of the branch.
- information on the legal representatives of the parent company.

If the founder is foreigner the official documents of the founder of the branch must be translated by one of the official Slovenian court interpreters.

### Timeframe

The branch is registered within 7-14 days.

### Where to apply?

An application for registration of a branch in a court business register must be filed by a legal representative of a company at a notary.

### Costs

The costs of establishing a branch are composed by:

- The costs of the notary services.  
These depend on the difficulty of documents' composition, the necessary verifications, the composition of the proposal in the court register ...
- Costs of the needed translations by the official Slovenian court interpreters.

### **1.3.2. Important / exceptions**

A branch can only perform the activities listed in the business registry of parental company. If the law specifies special conditions for the commencement of an activity, this activity may only begin if it meets all the specific conditions required in the Republic of Slovenia.

### **1.3.3. Tips from professionals**

For liabilities arising from the business operations of branches, a parent company with all its assets is liable. Before setting up a branch, it makes sense to check whether it is more appropriate for a foreign company to establish a new company in Slovenia (100% owned by a foreign company).

## **1.4. BUSINESS ADDRESS AND VIRTUAL OFFICE**

### **1.4.1. Theoretical framework**

For the registration of the company, the founder needs to provide a business address. The business address is where the company's head office is located. It is the place where the company carries out its business activities or a place where the management of the company takes place.

The founder can avoid high rental costs or real estate purchase if he does not actually need the business premises. The cost can be reduced to a minimum by hiring a virtual office.

The virtual office offers the possibility of using a business address for the company's headquarters, the possibility of receiving official mail, notifying and redirecting of the incoming mail, receiving phone calls and faxes, offering the use of a meeting room, and similar.

The price of a virtual office rental is somewhere between 25 and 270 € per month, depending on the office's location and on the services that a company needs.

### **1.4.2. Important / exceptions**

A virtual office is not sufficient in specific businesses in which business premises are indispensable.

To carry out certain business activities - especially in the field of catering, trade, warehousing, production, education, various workshops, laboratories, ambulances and similar - an adequate business premises must be provided. Upon registration of the company, this condition is not checked, but the entrepreneur must provide adequate business premises and acquire the appropriate permits before starting the actual operations. Virtual office in this case is not the right choice.

### **1.4.3. Tips from professionals**

An increasing number of foreign investors opt for such an office form, as it is affordable, flexible and not binding for a long term. More and more importance is focused on mobility and flexibility, as entrepreneurs often carry out their activities in several different locations, so a good FDI advisor will research the offer and also propose this option to the foreign investors.

As an interesting feature, also worth mentioning are co-working premises - affordable business premises which are shared by several entrepreneurs. Their use is more popular among young companies / entrepreneurs who do not yet have regular income and want to save on costs. Co-working premises are fully equipped and an entrepreneur can start his/her business immediately upon moving there. Due to the proximity of other entrepreneurs, business networking is facilitated, as opportunities are already present in the building itself. In addition, co-working contracts are valid for a shorter period of time and entrepreneurs do not bind themselves for a long term, which allows them greater flexibility.

## 1.5. BUYING AN EXISTING BUSINESS

### 1.5.1. Theoretical framework

Investors who want to buy an existing **Slovenian company or business** can do so by way of a takeover, by purchasing shares, by a merger (or de-merger) or by concluding a management agreement with the company.

#### ADVANTAGES AND DISADVANTAGES OF BUYING AN EXISTING BUSINESS

An investor may choose to purchase an existing company & business to:

- lower the risk which occurs when launching a new business on a new market.
- reduce start-up costs. (already existing inventory, patents, customers, etc.).
- immediately produce cash flow due to ongoing business activities.

Potential risks when buying an existing business are:

- hidden problems. (debts that you may not be able to repay, already signed hidden contracts, other possible complications),
- purchasing cost may be much higher than the cost of starting a new business.

#### Procedure

Companies for sale are mostly limited liability companies with or without an established business. These companies can be bought directly from the owners or from the intermediaries. The procedure has to be done in front of a notary, with a purchase agreement. Beforehand, the accounting service of the previous owner must hand over all financial documentation.

#### Documentation needed

The following documents are required in order to take over an already established limited liability companies in Slovenia:

- identity card (or passport).
- survey by the Chamber of Commerce.
- declaration that the company has been assessed and has no debts (official statement from the Slovenian Ministry of Finance).
- declaration that the balance sheet was closed at zero.
- declaration that the previous company data were removed and replaced with the new data.

All documents and changes are formalized at the notary office, in the presence of a certified legal translator.

Further information that has to be provided by the notary office:

- company name (if the existing name is intended to be changed).

- company's new address.
- a list of members and shares.
- company's main activity.

### **1.5.2. Important / exceptions**

The procedure is the same for **citizens from the EU member states** as for domestic investors. For the **non-EU citizens**, the procedure is different, because by law, (for third country citizens) a local manager needs to be employed.

### **1.5.3. from professionals**

#### **CHECK THE EXISTING BUSINESS OR COMPANY'S SELLER**

On Slovenian market, there are many providers of ready-made companies with an established business or newly opened companies.

Be careful when buying an existing business. Only buy from trusted providers and always check for the guarantee that the company is clear of all debts.

#### **CHECK THE COMPANY'S HISTORY**

You should also check the background of the company. If you are also buying an existing business with the company, you should check what operations they carried out, why it is not profitable, what competition they had on the Slovenian market, as well as the country's legislation, among other things. You can check the company's previous owners and business results by yourself on AJPES, where annual reports and ownership, as well as certain other legal activities of the company are published.

Nevertheless, a buyer never knows what documents or legal actions were taken by previous owners and the new owner could bear the consequences. Cautiousness is advised.

## 1.6. ADDITIONAL INFORMATION AND LITERATURE

Publication of the Financial Administration of the Republic of Slovenia on social security contributions payable by sole proprietors:

[http://www.fu.gov.si/fileadmin/Internet/Davki\\_in\\_druge\\_dajatve/Podrocja/Prispevki\\_za\\_socialno\\_varnost/Opis/Podrobnejši\\_opis\\_3\\_izdaja\\_Placevanje\\_prispevkov\\_za\\_socialno\\_varnost\\_za\\_zavarovance\\_-\\_samozaposlene\\_osebe.pdf](http://www.fu.gov.si/fileadmin/Internet/Davki_in_druge_dajatve/Podrocja/Prispevki_za_socialno_varnost/Opis/Podrobnejši_opis_3_izdaja_Placevanje_prispevkov_za_socialno_varnost_za_zavarovance_-_samozaposlene_osebe.pdf)

Details about the social contributions of a supplementary sole proprietor:

[http://www.fu.gov.si/fileadmin/Internet/Davki\\_in\\_druge\\_dajatve/Podrocja/Prispevki\\_za\\_socialno\\_varnost/Opis/Podrobnejši\\_opis\\_7\\_izdaja\\_Prispevki\\_za\\_osebe\\_ki\\_opravljajo\\_dejavnost\\_kot\\_postranski\\_poklic.pdf](http://www.fu.gov.si/fileadmin/Internet/Davki_in_druge_dajatve/Podrocja/Prispevki_za_socialno_varnost/Opis/Podrobnejši_opis_7_izdaja_Prispevki_za_osebe_ki_opravljajo_dejavnost_kot_postranski_poklic.pdf)

The umbrella act governing companies is the Companies Act. The latest consolidated text and all amendments can be found on the [www.pisrs.si](http://www.pisrs.si) legislative portal.

Further information on registration of sole proprietor is available at:

- SPOT (Slovenian Business Point), where the opening procedures for various business entities are presented, together with the necessary documentation, forms ...:

<http://evem.gov.si/evem/drzavljani/zacetna.evem>

- AJPES - one of the VEM points: [https://www.ajpes.si/Registracija/Tocka\\_VEM/Splosno](https://www.ajpes.si/Registracija/Tocka_VEM/Splosno)

- SPOT, sub web-page with required permissions and conditions for specific businesses (including required forms and estimated costs): <http://evem.gov.si/info/zacenjam/dovoljenja-in-pravih/>

Further information about registration procedure for limited liability company are available on the e-VEM website:

[http://evem.gov.si/info/data/user\\_upload/ZELIM%20REGISTRIRATI%20D.O.O..html](http://evem.gov.si/info/data/user_upload/ZELIM%20REGISTRIRATI%20D.O.O..html) ,

More about safety and health at work regulations: <http://evem.gov.si/info/poslujem/varnost-in-zdravje-pri-delu/>

Branches are bound by two legal acts: the Companies Act (ZGD-1) and the Directive 2012/17/EU of the European Parliament and of the Council on disclosures of branches. The first regulates the status aspects of the establishment of a branch, while the other regulates the disclosure of certain documents and data by branches.

<https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina?urlid=200642&stevilka=1799>

<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32012L0017>

More about virtual offices. Available on: <http://www.evem.si/virtualna-pisarna/>

More information about buying an existing company:

- Companies Act (ZGD-1):

[http://www.mgrt.gov.si/fileadmin/mgrt.gov.si/pageuploads/zakonodaja/ZGD-1\\_PREVOD\\_13-12-12.pdf](http://www.mgrt.gov.si/fileadmin/mgrt.gov.si/pageuploads/zakonodaja/ZGD-1_PREVOD_13-12-12.pdf).

- Takeover Act: [http://www.mgrt.gov.si/fileadmin/mgrt.gov.si/pageuploads/zakonodaja/take\\_over-act-121219.pdf](http://www.mgrt.gov.si/fileadmin/mgrt.gov.si/pageuploads/zakonodaja/take_over-act-121219.pdf)).
- Financial Instruments Market Act:  
[http://www.a-tvp.si/Documents/ZTFI\\_english\\_UPB.pdf](http://www.a-tvp.si/Documents/ZTFI_english_UPB.pdf))

## 1.7. QUIZ AND EXERCISES

### Quiz:

1. Which are the most common two business forms in Slovenia?
  - a) Limited liability company and sole proprietor
  - b) Limited liability company and unlimited company
  - c) Sole proprietor and unlimited company
  - d) Sole proprietor and company with share capital
  
2. What is the sole proprietor liable with in business operations?
  - a) Generated revenue
  - b) All of his/her assets
  - c) Property of his/her entire family
  - d) Generated profit
  
3. What is the difference between a sole proprietor and a supplementary sole proprietor?
  - a) (Full) sole proprietor may engage in any business activity, while supplementary sole proprietor may only do crafts work.
  - b) Supplementary sole proprietor is a natural person who is employed full-time by another employer, while (full) sole proprietor is a natural person who is not employed by another employer.
  - c) Supplementary sole proprietor cannot perform business with cash, while (full) sole proprietor can perform business with cash.
  - d) Supplementary sole proprietor can conclude an employment relationship with him-/herself while (full) sole proprietor cannot.
  
4. How much is the minimum founding capital for a limited liability company?
  - a) at least EUR 7,500
  - b) at least EUR 75,000
  - c) a maximum of EUR 7,500
  - d) a maximum of EUR 75,000
  
5. In which three registers a sole proprietor must enter before he starts his business?
  - a) AJPES Business Register, the tax system at the Ministry of Finance and the social insurance system at the Health Insurance Institute (ZZZS).

- b) AJPES Business Register, the tax system at Financial Administration of the Republic of Slovenia (FURS) and the social insurance system at the Pension and Disability Insurance Institute (ZPIZ).
- c) AJPES business register, the tax system at the Financial Administration of the Republic of Slovenia (FURS) and the social insurance system at the Health Insurance Institute (ZZZS).
- d) AJPES Business Register, the tax system at the Ministry of Finance and the social contributions system at the Health Insurance Institute (ZZZS).

6. How long does it take to register in all three registers, on the assumption that the future proprietor has prepared all the required documentation?

- a) One hour
- b) One day
- c) One week
- d) One month

7. What conditions must be met in order to be able to register a limited liability company at one of the VEM points?

- a) All founders need to have cash with them; the decision to establish the company has been adopted; in the case where a company is founded by one person, the company's decisions are kept in electronic form.
- b) All founding contributions are in cash and are paid up prior to the filing of the proposal for company registration in the court register; the statement on the establishment of the company was signed; in the case where a company is founded by one person, the company's decisions are kept in electronic form.  
All founding contributions are in cash and paid up prior to the filing of the proposal for company registration in the court register; the resolution on the establishment of the company was adopted; in the case where a company is established by one person, the company's resolutions are submitted in hard copy.
- c) All founding contributions are in cash and are paid up prior to the filing of the proposal for registering the company in the court register; an establishment act is adopted; in the case where a company is founded by one person, the company's decisions are kept in electronic form.

8. Which of the documents will NOT be prepared for the investor at the VEM point?

- a) establishing act
- b) temporary bank account
- c) entry form for the FURS
- d) decision on the business address

9. Can a foreign company from a non-EU country establish a branch in Slovenia?

- a) Yes, if it is registered for at least two years in the home country.
- b) Yes, if it has more than EUR 500,000 of annual turnover.
- c) Yes, if it will employ at least 5 Slovenian workers.
- d) No.

10. Who can lead the procedure of registering a branch in the court register?
- a) Legal representative of a foreign company.
  - b) Intermediary agency.
  - c) Notary.
  - d) Attorney.
11. What is the required founding capital for registering a branch?
- a) At least 7,500 EUR
  - b) At least EUR 75,000.
  - c) The founding capital is not required.
  - d) Exactly 7,500 EUR.
12. Can a virtual office be hired to carry out catering activities?
- a) No, because a foreign investor must provide the appropriate business premises and the relevant permits for carrying out such an activity.
  - b) No, because providers of virtual offices do not offer this possibility.
  - c) Yes, because the agency offers this type of virtual offices.
  - d) Yes, because catering services can be done anywhere.
13. When does it make sense to hire a virtual office?
- a) When a foreign investor does not actually need business premises to pursue his/her business.
  - b) When a foreign investor needs production premises.
  - c) When a foreign investor deals with hotel business.
  - d) When a foreign investor is involved in activities of a health clinic.
14. Where can existing companies be bought?
- a) Directly from owners or National Office for Entrepreneurship.
  - b) Directly from owners or real estate agents.
  - c) Directly from owners or intermediaries.
  - d) Directly from intermediaries only.
15. What documentation should a foreign investor require before buying an existing company?
- a) Entire accounting documentation from the accounting service of the previous owner.
  - b) Accounting reports for the previous year.
  - c) Accounting reports for the previous 2 years.
  - d) Copy of the contract with the accounting service of the previous owner.

16. What is the difference between a domestic investor or an investor from EU member states buying an existing company and when this is done by a third country national?

- a) Non-EU citizens have to pay a tax on buying a company.
- b) Non-EU citizens have to register the transaction at the National Entrepreneurship Agency.
- c) Non-EU citizens have to employ at least three local employees.
- d) Non-EU citizens have to employ a local manager.

Exercises:

Exercise 1:

Make a calculation of the exact amount of personal income tax for a sole proprietor who has chosen a flat rate taxation option and had an annual turnover of EUR 32,000.

Write the answer:

Exercise 2:

Create a list of all documentation to equip a foreign investor - a natural person - from a non-EU country before sending him/her to one of the VEM points in order to establish a limited liability company.

Write the answer:

Exercise 3:

A foreigner who comes from an EU member state wants to establish a branch in Slovenia, the main activity of which shall be research in the field of labour market. Create a list of documentation that needs to be submitted to the notary.

Write the answer:

Exercise 4:

Investigate what would be the cost of a foreign investor when renting a virtual office in Ljubljana that offers the following services:

- business address of the company at an accessible location in Ljubljana,
- receiving mail,
- receiving registered mail,
- immediate notification of the arrival of the registered mail,
- mail scanning (up to 3 scans per month),
- weekly notification of incoming mail,
- consent for using the address as a company's business address + free establishment of the company,
- any permit or license needed for business operation (premises use permit...).

Write the answer:

Exercise 5:

Which documents are required in order to take over an already established limited liability companies in Slovenia?

Write the answer:

## **Module 2: LEGISLATION REQUIREMENTS AND COSTS PERTAINING TO RUNNING A BUSINESS**

This module is designed to make you understand the legislation that a company must abide with while running a business; and the future FDI advisors should be familiar with.

We will take a look at the main legal regulations, main features of the tax system in Slovenia and the obligations of taxpayers, which a qualified adviser to foreign investors should know.

### **Glossary**

**AJPES** - Agency of the Republic of Slovenia for Public Legal Records and Related Services

**Business entity** – an established organisation

**Corporate Income Tax** – a tax that a company has to pay on its profits

**FURS** - Financial Administration of the Republic of Slovenia

**GDPR** - General Data Protection Regulation

**Operating costs** – costs involved in running a business

**OZ** – Code of Obligations

**Social security** – pension and disability insurance, health insurance, unemployment insurance and maternity leave

**SURS** - Statistical Office of the Republic of Slovenia

**Tax** – a taxpayer's financial burden

**Tax number** - an identification mark assigned to a taxable person

**Tax Register** - a unified, computerised database of taxpayers connected with other records

**VAT** - Value Added Tax or tax assessed on the value added to goods and services.

**ZDavP** – Tax Procedure Act

**ZGD** – Companies Act

**ZVOP** – Protection of Personal Data Act

**ZVZD** – Health and Safety at Work Act

## 2.1. REPORTING AND OTHER LEGAL OBLIGATIONS

### 2.1.1. Theoretical framework

This chapter provides an explanation of all relevant laws governing business operations in Slovenia as well as legal obligations which business entities are subject to.

#### Relevant legislation

Slovenia is an EU member state. Hence, all EU regulations are in force there, while EU directives are covered by the national legislation.

The [PIRS](#) portal provides an insight into all applicable laws, including their previous versions. Its administrators make sure that any possible changes previously made to a particular law are always included in the consolidated text presenting the current state of the matter.

The most important acts, that you should know, are:

#### *Companies Act*

Its current version is labelled ZGD-1.

This law stipulates fundamental corporate status regulations on establishing and running business operations by business entities, sole proprietors, related parties, economic interest groups, foreign companies' subsidiaries and their status transformation.

Furthermore, obligations such as annual reports, books of account, accounting, balance sheets, legal relationships between shareholders, termination of the company, etc. are set out with this law.

#### *Code of Obligations*

Code of Obligations (OZ) governs the basic principles and general regulations on all obligation relationships. For those obligation relationships that are governed by other laws, the provisions of the Obligatory Code shall apply for the issues not regulated by those particular laws.

In principle, contracting parties can regulate their obligation relationships freely unless in contravention of the Constitution, compulsory regulations or moral principles.

Unless expressly defined otherwise in the agreement, the provisions of the Obligatory Code shall apply. These provisions shall also apply where the agreement is contrary to or deviates from the law.

Unless expressly defined otherwise within the industry, the provisions of this Code shall apply to all types of contracts.

The OZ code is comprehensive. It consists of two volumes. The first one is labelled General Part, the second one Special Part. In the first volume, explanations on the general characteristics of contracts, representation, obligations, offsetting, payment deadlines and creditors are presented. The provisions regarding insurance, travel, storage, other specificities of contracts, orders, safekeeping, licenses and guarantees are dealt with in the second volume.

### *Protection of Personal Data Act*

In Slovenia, the protection of personal data is regulated by both the European GDPR and a special national law, named Protection of Personal Data Act.

Subject to this law are the obligations of personal data processors in view of protecting personal data and sensitive personal data. In this respect, the [Information Commissioner](#) is the authority in charge of providing advice to businesses by whom inspection is conducted. In case of violation, a company may be penalised by this authority.

### *Health and Safety at Work Act*

The provisions regulating the safety and health of the employees at their workplaces are listed in the Health and Safety at Work Act. Here, the rights and the obligations of both employers and employees are defined in view of safe and healthy working conditions including the appropriate measures to be taken in this respect.

This law specifies employer's responsibilities to implement measures for safe work, stipulates workers' rights and duties, planning of joint activities, risk assessment and other obligations. When employing staff, an entrepreneur shall contact an adviser for assistance with the necessary documentation including a safety statement and a risk assessment.

According to the Act, a safety statement is mandatory and must be held by each employer. It must include at least:

- the recording of potential hazards and dangers in the work environment,
- their assessment (risk assessment), and
- measures to ensure the safe and healthy work of employees.

One of the main obligations of business entities in Slovenia is reporting to the relevant authorities.

### Reporting, mandatory for all business entities

An annual report shall be submitted by any which company to FURS and AJPES by 31<sup>st</sup> of March. Its format shall correspond to the business entity's form and size. A limited liability company, for example, shall complete a balance sheet, a profit and loss statement, a tax return, and enclose corresponding annexes including the corresponding notes.

Some reporting is done monthly:

- salary calculation (REK-1 Report),
- reports on travel expenses,
- reports on all kinds of payments to natural persons, including rentals,
- reports on practitioners or part-time employees.

These reports shall be submitted to FURS – Financial Administration of the Republic of Slovenia. They may only be submitted electronically via the e-tax system called ‘eDavki’. An adequate REK form shall be used for reporting.

A payroll report (using the 1 ZAP/M form) and a refund pay-out report shall also be submitted to the AJPES agency (monthly).

VAT reporting to FURS via eDavki may be done monthly or every 3 months. First 12 months after acquiring the VAT ID number all subjects have to report monthly. After 12 months companies with a yearly turnover below 210 thousand EUR report on a three-month basis, while companies with the yearly turnover over 210 thousand EUR report monthly. However, companies which are doing business with VAT payers from other EU countries have to report monthly regardless of the yearly turnover.

Your client will also have to report to the public database of all business entities in Slovenia.

#### *Public database of all the business entities based in Slovenia*

AJPES is in charge of conducting quarterly surveys on the business entities’ operations. The persons assigned for reporting are listed by SURS based on the sampling method. The list of these entities obliged to report is available online. To check whether someone is on this list or not, you simply enter their registration number in the AJPES website. In principle, the persons assigned for reporting are business entities, cooperatives and foreign companies’ subsidiaries with over 49 employees, but also certain business entities with fewer than 49 employees.

The data acquired by the business entities is used to conduct analyses and calculations of performance indicators, including gross domestic product (GDP). Furthermore, based on the data obtained, future economic policies are proposed.

#### *Intrastat (Reporting the flows of goods)*

All physical flows of goods between Slovenia and other EU members are reported to the Intrastat. These include commercial transactions, movements of non-purchase/sale goods, return and replacement of products, as well as all other types of transactions listed on their website. Excluded from reporting to Intrastat are services, goods in transit, dispatches and receipts of goods listed in one of the annexes on their websites.

All reports shall be submitted electronically. A digital certificate is required which needs to be obtained by any entrepreneur or authorised person. This can either be arranged at a public administration office or at a bank with the e-banking option available.

### **2.1.2. Important / exceptions**

The delay or non-issuance of a report is rather high (from EUR 1,000 to EUR 30,000 for a business entity and from EUR 300 to EUR 2,500 for the responsible person - the amount depends on the type of the report and the size of the company. In addition to the penalty, late payment interests have to be paid.

All business entities have to keep an archive of the business documentation.

What documentation should be stored and how much time it must be kept is defined by the following laws:

- Law on Value Added Tax ZDDV-1;
- Rules on the Implementation of the Law on Value Added Tax;
- The Tax Procedure Act;
- Companies Act;
- Slovenian Accounting Standards;
- Accounting Act;

What must be kept permanently?

- annual reports (the balance sheets prepared for FURS and AJPES),
- payrolls and all documentation related to the calculation of salaries,
- a book of conclusions,
- the main book and a diary.

What must be kept for 20 years?

- contracts and accounts for the purchase and sale of real estate
- fixed assets register

What must be kept for 10 years?

- complete documentation of bookkeeping events: issued invoices, invoices received, contracts for the purchase and sale of short-term financial investments and hire of short-term loans, transaction accounts, balance sheets.

### **2.1.3. Tips from professionals**

It is recommended that foreign investors leave the preparation of reports to experts from accounting services who have the knowledge and experience in presenting all the specific data required in the reports.

## 2.2. TAX SYSTEM

### 2.2.1. Theoretical Framework

A taxable person is any person independently performing any kind of business at any place, regardless of its purpose or result.

Non-residents and foreigners are subject to special regulations that are often related to the taxation system of the country of their permanent residence.

For companies that are registered in Slovenia and owned by non-Slovenians, the applicable tax rules are the same as for local companies.

#### Tax procedure and taxable persons

The Tax Procedure Act (ZDavP-2) is regulating the tax procedure, in particular:

- tax billing, assessment, payment, repayment, supervision and enforcement (collection of taxes);
- rights and obligations of taxable persons, state administration and other bodies in charge of collecting taxes in accordance with the legislation, as well as other persons in the process of collecting taxes;
- safeguarding of the data acquired in the tax collecting process; and
- mutual assistance in tax collection and data exchange with the other EU Member States, with third countries and territories.

Taxable persons are both legal and natural persons.

#### International taxation

Since 2005, residents of Slovenia have been taxed based on global income, meaning their taxation is based on their taxable income irrespective of where it has been generated, within the national borders or abroad. In addition to the provisions of Slovenian tax legislation, the international treaties on the avoidance of double taxation represent an important mechanism for preventing double taxation of both natural and legal persons' earnings.

Any possible privileges and immunities belonging to international organisations and missions or their employees and members are based on either the national legislation or international treaties ratified by Slovenia. Certain international treaties which bind Slovenia stipulate income taxation in a different way than the national tax legislation, therefore, both institutions and taxable persons with such earnings are entitled to the benefits provided for in such a treaty.

To see whether Slovenia has signed an Agreement on Avoidance of Double Taxation with a third country, the interested party shall consult the [FURS](#) website.

#### Taxation of natural persons

Income tax is a tax on income of natural persons' resident in Slovenia. The FURS calculates income tax on the basis of official records, data sent by employers, and data sent by natural persons themselves. An informative calculation is sent by the Statistical Office to the natural persons who have the opportunity to complain in case of any missing or incorrect information.

Non-residents of Slovenia are obliged to pay the income tax they deserve in Slovenia.

Owners of real estate in Slovenia, including foreigners, are obliged to pay property tax in accordance with the provisions of the Citizenship Tax Act (only natural persons) and are responsible for paying compensation for the use of building land of natural and legal persons (NUSZ) in accordance with the provisions of the Building Land Act and Municipal Decrees on compensation for the use of building land. The NUSZ payer is a direct user of the land or building or part of the building, i.e. the owner of the right of disposal or the owner, the tenant of the apartment or the owner of the business premises, the owner of a housing right. If a foreign real estate owner sells a property, the taxpayer for real estate tax is in accordance with the provisions of the act governing the turnover of real estate.

### Value Added Tax

Value Added Tax (VAT, called DDV in Slovenia) is governed by the Value Added Tax Act (ZDDV-1), which is fully compliant with the EU VAT Directive. VAT is charged for all goods and services delivered by a taxable person within the scope of its business operations in Slovenia, including shipments of products such as vehicles.

By VAT, added value is taxed. This type of tax applies to goods and services at all stages of trade from production, wholesale, retail to final consumption.

In principle, VAT is levied and paid by a taxable person at each delivery of goods or services or any transaction considered by the VAT legislation as such, with the exception of certain expressly specified transactions which are exempt from VAT.

In accordance with the national VAT legislation, VAT is charged for deliveries of goods and services at a general rate of 22%, except for those goods and services for which a reduced rate of 9.5% applies. The list of goods and services subject to a reduced VAT rate is shown in Annex I to the ZDDV-1.

A taxable person is obliged to pay VAT to the state budget on a monthly or 3-monthly basis.

### Accession to the VAT system

When acquiring the status of a sole proprietor or starting up a company, an entrepreneur-to-be may freely decide whether to enter the VAT scheme or not. The integration becomes compulsory as soon as the amount of taxable turnover in the last 12 months exceeds € 50,000. Above this threshold, any form of business is unconditionally integrated into the VAT system (procedure for obtaining VAT number and accessing the system is described in Unit 3).

### Operating profit and capital gains taxation

Taxes are paid by companies based on their profits – Corporate Income Tax. However, once the profit is distributed among the owners or shareholders, these are charged Capital Gains Tax (CGT).

## Corporate Income Tax

Systematically regulated by the Corporate Income Tax Act (ZDDPO-2), the Corporate Income Tax is the fundamental form of direct corporate taxation. The object of this taxation is the profit from business operations performed by either a resident or a non-resident within or via a business unit located in Slovenia (Corporate Income Tax) and the incomes sourced in Slovenia for which the tax is charged based on the source (i.e. tax based on the tax withholding calculation).

For determining profits attained by a legal entity, the revenues and expenditures established in the profit and loss sheet showing the revenues, expenses and profit or loss are recognized on a legal basis and in accordance with the applicable accounting standards.

While in 2018 the general corporate income tax rate is set at 19% (a special tax rate of 0% applies to investment funds, pension funds and companies, provided they fulfil the conditions laid down by law), the tax withholding base rate is 15%.

The amount of tax payable by an enterprise is calculated in the income statement. Based on a number of tax incentives about which the entrepreneur shall be informed by his/her accountant, the tax calculation basis may be reduced.

The taxable profit of a non-resident's business unit in Slovenia is defined as the profit attributable to that business unit. An entity may be attributed the profits which could be expected to be held by that establishment if it were an independent taxpayer performing the same or similar activity or transactions. The revenues generated by performing business activities or transactions within or via a non-resident's business unit located in Slovenia and the actual costs incurred for the purposes of this business unit, including administrative and general administrative expenses, shall be attributed to this business unit whether incurred in Slovenia or abroad.

### Taxation of sole proprietors

A sole proprietor is a natural person and therefore not considered a legal person. Taxation of sole proprietors is governed by the Personal Income Tax Act.

With a sole proprietor, the subject of taxation is the Taxable Income from Business Operations. The income considered as Taxable Income from Business Operations is any income achieved by performing any entrepreneurial, agricultural, forestry, occupational or other independent business operation. The incomes from performing basic agricultural or forestry activities are treated separately. In the latter area, some specific taxation rules apply.

The essential elements underlying the definition of Taxable Income from Business Operations are the following:

- the business is performed permanently (a one-off or occasional transaction is not a business activity); and
- the business is performed independently and autonomously (the business is performed by the taxable person for his/her own account and benefits, upon his/her full responsibility and by warranting with all his/her assets).

The calculation base from the Taxable Income from Business Operations is the profit determined as the difference between the revenues attained and the expenditures incurred when performing the business.

Liable to Income Tax from Business Operations are all private individuals. In addition to individual sole proprietors, this category includes other natural persons who declare to be performing any business activity based on other regulations (e.g. notaries, lawyers, freelance journalists).

The tax calculation base of the Taxable Income from Business Operations for a sole trader is determined by following one of the following two options:

- by considering actual revenues and expenditures; or
- by considering standardised expenditures.

For those whose tax calculation base is determined by considering actual revenues and expenditures, their tax base equals the profit achieved. The latter is determined by deducting tax-deductible expenditures from the recognised revenues generated in a calendar year.

To determine tax-recognised revenues and expenditures, the Corporate Income Tax Act (ZDDPO-2) is a subsidiary used in addition to the ZDoh-2. In accordance with the provisions of this Act, the revenues and expenditures quoted in the income statement and adjusted for tax purposes in accordance with accounting standards are recognised for the determination of profits.

If a sole proprietor chooses such a method of calculating the tax base, he/she shall submit a tax return form to the tax authority no later than 31 March of the current year for the advance payment of Income Tax from Business Operations. In the tax statement, a taxable person may also apply tax incentives provided for by the Personal Income Tax Act.

Another possibility of determining a tax incentive is a simplified way of determining the tax base. This is derived from the actual tax-recognised revenues, while the expenditures are determined at a flat-rate amounting to 80% of the generated tax-recognised revenues. A taxable person may opt for this method of determining the tax base only when meeting the condition

- that with respect to the standardised expenditure his/her Taxable Income from Business Operations has not exceeded € 50,000 or, in certain cases, € 100,000 in the tax year prior to establishing the tax base as determined in accordance with accounting standards;
- he/she is a new entrepreneur having selected this calculation mode when registering.

At the time of determining the tax base, regarding the standardised expenditures, actual expenditures, tax incentives or tax losses from previous tax periods are not taken into account. In accordance with Article 73 par. 4 ZGD-1, a taxable person having opted for the tax base with respect to the standardised expenditure is not obliged to keep books and submit an annual report.

The standardised expenditure amounts to 80% of the revenue, and 20% of the income is taxed at 20%, which is 4% of the gross revenue.

In the case of determining the tax base by considering the actual expenditures, the income from business operations is included in the annual tax base of an individual. The total annual tax base of an individual is then taxed on a progressive income tax scale.

### Capital gains

Income Tax Act (ZDoh-2) includes the following incomes from capital gains:

- interest
- dividends and
- profit from capital.

The following items are deemed the capital:

- immovable property, regardless of whether it was divested in a changed or unchanged condition,
- securities and stakes in companies, cooperatives and other forms of organization,
- investment coupons.

Income tax is taxed on the profits earned through the disposal of capital.

As a rule, interest, dividends and capital growth are taxed at a 25% tax rate. When taxing profits from the disposal of capital, the holding period shall be considered. For a holding period of up to 5 years, the income is taxed at 25%; for a period of up to 10 years at 15%; for a period of 10 to 15 years at 10%; for a period between 15 and 20 years at 5%; and for a period of over 20 years of holding period the profit is exempt from tax.

In the EU, transfers of assets, share swaps, mergers and divisions between companies with an office in Slovenia or other EU countries (including European Open Companies – SE) are subject to the following rights to profit tax:

- at the moment of the transfer of assets (i.e. transactions where a company transfers without the liquidation one or more of its activities to another company (Buyer Company) or to an entirely new undertaking in return for receiving or transferring inventories representing the capital of the recipient), the transaction shall be considered tax neutral (deferred from tax) under the conditions laid down by law;
- following an exchange of equity interests (i.e. transactions where the acquiring company receives the stocks of the acquired company in exchange for its own inventories and thus acquires most of the rights in the acquired company), the shareholder of the acquired company is exempt from taxes on profit and loss due to the exchange of shares when no cash payments are received;
- following a merger or dissolution of a company (for example, due to a change in the status of a group of companies in order to establish a new company or to divide the existing companies into several new companies in accordance with the Companies Act), the transaction is considered to be tax neutral (deferred tax) under the conditions laid down by law.

### Tax incentives

In certain cases, the basis for the payment of corporate income tax for sole proprietors may be reduced. The following facilities can be used: investments in research and development, new investment, new employment and employment of disabled people, disabled persons as taxable person, carrying out practical work in vocational education, voluntary supplementary pension insurance, donations.

A company employing a person under 26 or above 55 having been registered as a job seeker for at least six months and not employed by the same employer for the last 24 months is entitled as a taxable person to have its tax base reduced. The incentive amounts to 45% of the employee's salary and is limited to its tax base.

A taxable person employing a practitioner for practical training as part of his/her professional training is entitled to have the tax base reduced for the amount of the trainee's salary, but only up to 20% of the minimum wage in Slovenia for each month of internship.

An employer financing a pension insurance scheme for its employees may apply an additional reduction in the tax base. A supplementary pension insurance shall be paid to the pension plan provider located in Slovenia or another EU country. The pension scheme shall be approved and

registered in a special register. The scheme shall also comply with the regulations on voluntary supplementary pension and disability insurance. Tax benefits apply to the year when the sum of insurance premiums paid did not exceed 24% of the compulsory pension, while the contributions for disability insurance for employees/insured persons amounted to a maximum of € 2,819.09 per year.

### **2.2.2. Important / Exceptions**

The tax year in Slovenia ends on December 31st.

Business entities must file a yearly report, on which Corporate Income Tax is calculated, by March 31st.

Reports on VAT have to be filed in monthly or every 3 months (depending on the overall income of the company).

The corresponding reporting is done electronically on eDavki.si website. A digital certificate is required which is obtained on the basis of a written request.

### **2.2.3. Tips from professionals**

The choice whether to opt for voluntary inclusion in the VAT system or not depends on how and with whom the business is operating. Should the entrepreneur decide to become a VAT payer, he/she shall not forget to charge the applicable VAT in addition to the net price of his/her products or services. This means that for the end customer the product may turn more expensive. In the B2C context, this higher price may pose a barrier to conducting business. For a company operating with VAT payers, however, charging VAT usually turns out to be more favourable for all partners since following the end of a specified time period (monthly or quarterly), the entrepreneur is obliged to pay the VAT collected minus the amount of VAT paid earlier for purchasing the necessary business assets.

Like most of the Slovenian companies, it is advisable that foreign investors also leave preparation of the required tax reports to the experts from accounting services.

## 2.3. TAX REGISTRATION

### 2.3.1. Theoretical framework

Any company or natural person planning to do business in Slovenia shall enrol in the Tax Register and obtain a tax number.

#### Tax register

Tax Register is a unified, computerised database of taxpayers connected with other records. Based on the Financial Administration Act (ZFU), it is managed by the Financial Administration of the Republic of Slovenia (FURS).

The entry into the Tax Register is done following an application or ex officio. Once registered in the Tax Register, the subject of registration is assigned a tax number.

#### Tax number

A tax number is an identification mark assigned to a taxable person and used in connection with any of the taxes. Its purpose is to enable a uniform data definition and connection within tax records managed by the tax authority. It is an eight-digit, randomly selected number, controlled via the Module 11 (i.e. the first seven digits being randomly selected with an eighth one as the control number).

A tax number is also granted to a non-taxable person when the number is required in a tax procedure.

In order to obtain a tax number for a natural person who does not have permanent or temporary residence in Slovenia but receives taxable income or is the owner of taxable real estate or movable property, an application for entry in the financial register to the Financial office of the Republic of Slovenia has to be submitted by this person.

Such a person must fill in the DR-02 form and file it to the Financial office (the form can be found on the [Office's website](#)).

#### Conditions

The following persons or entities shall enrol in the Tax Register:

- anyone subject to enrolment in the Court Register;
- any natural person with permanent or temporary residence in Slovenia,
- any individual sole proprietor;
- any legal entity or natural person in a business activity, registered in another register or other legal records within the Slovenian territory, neither a subject of entry into a court register nor a sole trader;
- any legal entity or natural person not having a registered office or other registered form in Slovenia and performing an activity within the Slovenian territory;
- any association of persons under foreign law, no legal entity;

- any direct user of the state or municipal budget,
- any natural person who does not have permanent or temporary residence in Slovenia but receives taxable income or is the owner of taxable real estate or movable property.

## Procedure

### *Procedure of obtaining a Tax Number for a business entity*

The tax number is assigned to business legal entities and sole proprietors automatically during the registration procedure.

### *Procedure of obtaining a VAT ID for a business entity*

When an entrepreneur chooses or reaches the must conditions to enter the VAT system, he/she must send the FURS the completed DDV-P2 form which can be found on the [eDavki web portal](#).

In case that he/she is not established in Slovenia and will perform a taxable supply of goods or services on the territory of Slovenia, the [DDV-P3](#) form must be filled in.

The business entity shall become included in the system when VAT identification number, consisting of the tax number and the prefix SI, is assigned to the company by FURS.

### *Procedure for obtaining of a Personal Tax Number*

To obtain a tax number, a natural person without a permanent or temporary residence in Slovenia, but earning taxable income or being an owner of taxable real estate or movable property, shall apply for enrolment in the Financial Register at a Financial Administration office.

This person shall complete the [DR-02](#) form and submit it at a Financial Administration office.

The form can be submitted by authorised person.

## Documentation needed

### *Documentation for a business entity Tax Number*

Documentation needed for registration of a business entity see Module 1).

### *Documentation for a business entity VAT ID*

VAT-P2 form, available on the [eDavki portal](#), and annexes (contracts or pre-contracts, business plan, procurement documents for the purpose of performing activities, etc.).

### *Registration of a Personal Tax Number*

[DR-02](#) form, an ID document or a copy of the latter and authorisation for a third person.

### Where to apply?

While being incorporated, a company can be entered into the register in three different ways:

- via the e-VEM Portal;
- via the VEM Point;
- at the Financial Administration Office (FURS)
- via eDavki portal

### Timeframe

Tax number can be obtained in 1 – 7 days.

### Costs

There are no costs for obtaining a VAT or a VAT ID number.

### **2.3.2. Tips from professionals**

By using a VEM Point to register a business, many things can be done at one stop. In addition, foreign investors can be provided with further advice and guidance in specific fields, covered by VEM Points.

However, each FDI advisor should fill in all the presented forms in order to understand completely what the forms require from foreign investors.

## **2.4. BUSINESS OPERATING COSTS**

### **2.4.1 Theoretical Framework**

Each company bears business operating costs, e.g. for the purchase of equipment, materials, services, payrolls, etc. Here-below, the costs arising from legal obligations are presented.

In terms of accounting, the following criteria apply to classify the costs:

- material costs (raw materials, materials, electricity, stationery and the like);
- costs of services (production of products, transport, rent, advertising and the like);
- depreciation (equipment, vehicles, facilities, etc.).

A company bears fixed and variable costs. The fixed ones, such as electricity, the Internet, telecommunications, utilities, depreciation, licences, subscriptions etc., remain permanent. The variable ones are changing proportionally to the volume of operations. These include direct or indirect costs associated with a product, such as the cost of raw materials.

#### **2.4.1.1. Social security costs for sole proprietors and managers without employment status**

##### **Sole Proprietors**

A sole proprietor is obliged to pay a social security contribution to the Tax Office monthly. This includes:

- pension and disability insurance;
- health insurance;
- unemployment insurance; and
- maternity leave.

These transfers are payable by the 20<sup>th</sup> day of the month for the previous month (never in advance). During the first two years following the establishment, it is possible to obtain relief for pension and disability insurance contributions (50% during the first year and 30% during the second year).

In March 2018, monthly contributions, excluding tax relief, amounted to a minimum of € 372.91. The basis is determined as 60% of the average gross salary of the previous year in the RS, calculated to the monthly level.

##### **Supplementary Sole Proprietors**

A supplementary sole proprietor is obliged to pay a social security contribution in the total amount of €67.38 by the 15<sup>th</sup> day of the month for the previous month – regardless of the actual number of days of activity in the previous month. Taxpayers pay a monthly contribution for the pension and disability insurance (PIZ) by the 15<sup>th</sup> of the month for the previous month.

The social security transfer paid by a supplementary sole proprietor includes the following:

- pension and disability insurance; and
- health insurance.

## **Company members who are managers without an employee status**

The social security costs of company members who are managers without an employee status are charged in the same way as for sole proprietors. However, in their case, the contribution calculation basis is determined based on 75% of the average Slovenian gross salary for the previous year calculated on the monthly level.

In March 2018, this amount was at €454.01.

### **2.4.1.2. Labour Costs**

Employees in private sector are entitled to salaries, transport cost reimbursements and catering allowances during work. Once a year, they are entitled to a holiday allowance.

Salary is agreed in the context of a contract of employment. In some industries, there are collective agreements ensuring a minimum level of workers' rights.

The minimal salary is defined by law. For 2018, the minimum salary is €842,79 gross or €638,42 net.

Regardless of the amount of salary, social security contributions shall be accounted for, namely:

- social security contributions payable from gross wages in the total amount of 22.10%, and
- employer's contributions payable on gross earnings in the total amount of 16.10%.

**Example:** For an employee receiving a gross salary of €1,000, the company pays social security contributions, in addition, making the total amount of €1,161.

The employee is also entitled to catering and transport allowances, which cannot be determined in absolute terms. It is important to know that these two amounts are not taxed.

## **2.4.2. Important / Exceptions**

### **Accounting**

The cost of accounting depends on the type of service, company size, number of employees, etc. There are plenty of providers available on the market, so it is important to opt for a service appropriate for their business. For a small company, the expected price for a reliable accounting service is at €150 per month.

*Incorrect accounting may lead to poor business results or, worse, acting contrary to the law, which in turn can have a negative effect on one's credit rating at one's bank and can cause difficulties, for example, when applying for a loan. One may even pay a fine consequently.*

With accounting, the price should not be the essential criterion of choice of an accountant.

### **Costs of Premises**

Before registering a company, its business address and head office in Slovenia shall be decided upon. This can be done by renting an office or hiring a virtual one.

Business premises costs vary depending on the type, quality and location (for example for an office of 20 m<sup>2</sup> ranging from €200 upwards in the capital of Slovenia in March 2018).

Virtual offices costs range from €25 to €270 per month (March 2018), depending on the provider, location and scope of services.

### Example of Business Operating Costs

Please check and compare the two examples of business costs presented.

The first table shows the indicative costs of a limited liability company without employees, while the other one shows the indicative cost of the same company with one employed person.

*Table: Company costs without purchasing costs of products and services, needed for business product*

Cost type	Cost amount [€]
<b>Accounting</b>	150
<b>Bank account</b>	5
<b>Office address</b>	80
<b>Additional costs (e.g. the Internet, electricity...)</b>	50
<b>Total</b>	285

*Table: Approximate cost of a limited liability company with one employee*

Cost type	Cost amount [€]
<b>Accounting</b>	150
<b>Bank account</b>	10
<b>Business premise (20 m<sup>2</sup>)</b>	200
<b>Additional costs (e.g. the Internet, electricity...)</b>	80
<b>Payroll costs for an employee earning €1,000</b>	1320
<b>Total</b>	1760

But beware!

It's just a case. FDI adviser can only calculate operating costs more precisely after obtaining all relevant information from the investor (data on the number of employees, number of received and issued invoices per month and similar ...).

And of course, not all costs are involved in these calculations, as the tables does not include the cost of products and services needed for the company's products.

### **2.4.3. Tips from professionals**

In addition to a regular contract of employment, other forms of employment are possible, such as subcontracting, a copyright contract, student service. Any entrepreneur should be aware of benefits, limitations and obligations specific to each particular form (please see more on different types of employment in Module 5).

## **2.5. INDUSTRY-SPECIFIC LEGISLATION**

### **2.5.1. Theoretical Framework**

For certain industries, business is regulated in a particular way. In some sectors, special regulations governing business operations apply.

These sectors can include:

- training when providing publicly applicable programs;
- real estate;
- health;
- trade;
- agriculture, forestry;
- activities that are dangerous to employees or the environment.

FDI advisor should check these regulations for each client. Information on the regulations and legislation in specific businesses is published at [SPOT \(Slovenska poslovna točka\)](#).

### **2.5.2. Important/Exceptions**

Restrictions or special requirements are diverse. Some of them require their employees to hold a license (real estate agencies, for example), others are focused on performing of activities or special equipment.

Therefore, an entrepreneur shall clarify whether his/her activity is one of those that are subject to specific legislation and regulations requiring special consents, or not.

Companies trading beyond the EU borders shall be acquainted with the customs regulations defined by the European Community Customs Code.

The companies offering their services or products to state authorities shall be acquainted with the Public Procurement Act.

### **2.5.3. Tips from professionals**

FDI advisors should check each client's foreseen business activities and make sure the client fulfils all the required industry-specific requirements before filing in the registration forms.

## **2.6. OTHER USEFUL INFORMATION**

### **2.6.1. Banks**

Business banks in Slovenia are in the presented list:

- Abanka,
- Addico Bank,
- Banka Koper,
- Sparkasse Bank,
- Deželna banka Slovenije,
- Gorenjska banka,
- KBS Bank,
- Nova kreditna banka Maribor (NKBM),
- Nova Ljubljanska banka (NLB),
- Sberbank bank,
- SKB bank,
- SID bank - Slovene Export and Development Bank,
- UniCredit Bank Slovenia.

The largest bank in Slovenia is the Nova Ljubljanska banka d.d. The second one is the Nova Kreditna banka Maribor d.d.

All non-residents can open a bank account in most Slovenian banks. To open an account, the customer needs the following documents:

- a valid personal identification document,
- tax number obtained in the Republic of Slovenia,
- tax number from the country where the person is a resident.

The procedure lasts up to one hour, the costs of opening a non-resident's business account depend on the selected bank.

For small businesses and individuals, a deposit of € 100,000 is guaranteed, as defined by Directive 2009/14/EC of the European Parliament.

### **2.6.2. Payment methods**

There are several payment channels available in Slovenia. It is possible to pay in cash, with cards, vouchers, and in some cases payment with virtual currencies is also enabled. Purchases can be paid personally on the spot, via the Internet, by post, by phone, by transaction accounts, etc. For businesses, restrictions apply to cash payments, so the preferred method of paying and charging is non-cash payment. Since cash operations of companies are also subject to more rigorous tax supervision, more caution is needed. The penalties are quite high, so it is important that you present this limitation to the foreign investors (please see sections 6.3., 6.4. and 6.5).

### **2.6.3. Issuing invoices that customers pay in cash**

If a company receives cash as a means of payment, it needs a fiscal cash-register or at least a linked book of accounts. Regarding fiscal cash-register and/or linked book of accounts a foreign investor should consult with the selected accountancy firm.

### **2.6.4. Restrictions on cash flow between business entities**

Business entities have a limit on cash operations above EUR 420. This means that only invoices up to EUR 420 can be paid in cash. Above this amount the invoices must be paid by transfer to the transaction account (TRR). In case of payment of an invoice over the amount of EUR 420 with cash, an enterprise which pays the invoice is committing an offence (not the one which issues the invoice and receives the cash).

### **2.6.5. Restrictions on cash flow when doing business with natural persons**

Also cash transactions with natural persons are limited: entrepreneurs who are selling goods or providing services in the Republic of Slovenia to clients – natural persons – must not accept cash payment if the invoice exceeds the value of EUR 5,000.

## 2.7. ADDITIONAL INFORMATION AND LITERATURE

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Zakonodaja.com. *Health and Safety at Work Act* (online). Access via: <https://zakonodaja.com/zakon/zvop-1> (18. 09. 2018)

Statistical Office of the Republic of Slovenia. A detailed insight into reports and subjects of reports (online). Access via: <http://www.stat.si/StatWeb/Methods/QuestionnairesMethodologicalExplanationsQualityReports> (18. 09. 2018)

Statistical Office of the Republic of Slovenia. Further instructions on reporting to Intrastat (online). Access via: [http://www.stat.si/dokument/9854/NAVODILA\\_ZA\\_PE\\_2018.pdf](http://www.stat.si/dokument/9854/NAVODILA_ZA_PE_2018.pdf) (18. 09. 2018)

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Statistical Office of the Republic of Slovenia. *Statistics on trade between European Union Member States. Instructions for Reporting Units 2018* (online). Access via: [http://www.stat.si/dokument/9854/NAVODILA\\_ZA\\_PE\\_2018.pdf](http://www.stat.si/dokument/9854/NAVODILA_ZA_PE_2018.pdf) (18. 09. 2018)

[AJPES, Agency of the Republic of Slovenia for Public Legal Records and Services. Statistics \(online\)](https://www.ajpes.si/Statistike). Access via: <https://www.ajpes.si/Statistike> (18. 09. 2018)

[AJPES, Agency of the Republic of Slovenia for Public Legal Records and Services. Other statistics \(online\)](https://www.ajpes.si/Statistike/Druge_statistike). Access via: [https://www.ajpes.si/Statistike/Druge\\_statistike](https://www.ajpes.si/Statistike/Druge_statistike) (18. 09. 2018)

Statistical Office of the Republic of Slovenia. *AJPES – Agency of the Republic of Slovenia for Public Legal Records and Services* (online). Additional information concerning submitting data. Access via: <http://www.stat.si/StatWeb/StaticPages/Index/ajpes> (18. 09. 2018)

Statistical Office of the Republic of Slovenia. *State Statistics System* (online). Access via: <http://www.stat.si/statweb/NationalStatistics/SystemNatStat> (18. 09. 2018)

Statistical Office of the Republic of Slovenia. *Methodological Explanations Search Engine* (online). Access via:

<http://www.stat.si/StatWebArhiv/glavnanavigacija/oddajanje-podatkov/metodoloska-gradiva> (18. 09. 2018)

Slovenian Government Office for Legislation. *State Statistics Act (ZDSta) (Official Gazette RS, No. 45/95 and 9/01)* (online). More about the Law on Statistics in Slovenia can be found here.

Access via: <http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO424> (18. 09. 2018)

Slovenian Government Office for Legislation. *List of Slovenian Laws and Regulations in English* (online). Access via: <http://www.pisrs.si/Pis.web/zakonodajaRSanglecina> (18. 09. 2018)

To know more about the fiscal system, it is useful to consult the Financial Administration (FURS) website where the legislation, the instructions and the advice to taxable persons are presented:

- For the Slovene version, please see: [http://www.fu.gov.si/davki\\_in\\_druge\\_dajatve/](http://www.fu.gov.si/davki_in_druge_dajatve/) (18. 09. 2018)
- For the English version, please see: [http://www.fu.gov.si/en/taxes\\_and\\_other\\_duties/](http://www.fu.gov.si/en/taxes_and_other_duties/) (18. 09. 2018)

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The Tax Procedure Act (online)

Access via: <http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO4703> (18. 09. 2018)

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<http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO6642> (18. 09. 2018)

Value Added Tax Act (online). Access via:

<http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO4701> (18. 09. 2018)

Financial Administration of the Republic of Slovenia. *Corporate Income Tax (DDPO)* (online).

Access via:

[http://www.fu.gov.si/davki\\_in\\_druge\\_dajatve/podrocja/davek\\_od\\_dohodkov\\_pravnih\\_oseb\\_d\\_dpo/](http://www.fu.gov.si/davki_in_druge_dajatve/podrocja/davek_od_dohodkov_pravnih_oseb_d_dpo/) (18. 09. 2018)

Financial Administration of the Republic of Slovenia. E-tax portal eDavki. Entry for registered users (online). Access via:

<https://edavki.durs.si/OpenPortal/Pages/StartPage/StartPage.aspx> (18. 09. 2018)

Financial Administration of the Republic of Slovenia. *Taxes and other charges* (online). Access in Slovenian via: [http://www.fu.gov.si/davki\\_in\\_druge\\_dajatve/](http://www.fu.gov.si/davki_in_druge_dajatve/) (18. 09. 2018)

Access in English via: [http://www.fu.gov.si/en/taxes\\_and\\_other\\_duties/](http://www.fu.gov.si/en/taxes_and_other_duties/) (18. 09. 2018)

Slovenian Government Office for Legislation. *Value Added Tax Act* (online).

Access via: <http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO4701> (18. 09. 2018)

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[http://www.fu.gov.si/davki\\_in\\_druge\\_dajatve/poslovanje\\_z\\_nami/vpis\\_v\\_davcni\\_register\\_in\\_davcna\\_stevilka/](http://www.fu.gov.si/davki_in_druge_dajatve/poslovanje_z_nami/vpis_v_davcni_register_in_davcna_stevilka/) (18. 09. 2018)

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<http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO6792> (18. 09. 2018)

Detailed instructions for DDV-P2 form (online). Accessible via:

[http://www.fu.gov.si/fileadmin/Internet/Davki\\_in\\_druge\\_dajatve/Podrocja/Davek\\_na\\_dodano\\_vrednost/Obrazci/Kratek\\_opis\\_DDV-P2.pdf](http://www.fu.gov.si/fileadmin/Internet/Davki_in_druge_dajatve/Podrocja/Davek_na_dodano_vrednost/Obrazci/Kratek_opis_DDV-P2.pdf) (18. 09. 2018)

Detailed instructions for DR-02 form (online). Accessible via:

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Social security contributions (on line)

[http://www.fu.gov.si/fileadmin/Internet/Davki\\_in\\_druge\\_dajatve/Podrocja/Prispevki\\_za\\_socialno\\_varnost/Opis/Podrobnejši\\_opis\\_2\\_izdaja\\_Brosura\\_o\\_placevanju\\_prispevkov\\_za\\_socialno\\_varnost.pdf](http://www.fu.gov.si/fileadmin/Internet/Davki_in_druge_dajatve/Podrocja/Prispevki_za_socialno_varnost/Opis/Podrobnejši_opis_2_izdaja_Brosura_o_placevanju_prispevkov_za_socialno_varnost.pdf) (18. 09. 2018)

## 2.8. QUIZ AND EXERCISES

### Quiz:

1. Which reports does a foreign investor's company need to file every month to the relevant authorities?
  - a) VAT reports, salary calculation (REK-1 Report), reports on travel expenses and reports on all kinds of payments to natural persons
  - b) VAT reports, salary calculation (REK-1 Report), reports on travel expenses and Company Income tax
  - c) Company Income tax, reports on wages, reports on travel expenses and reports on all kinds of payments to natural persons
  - d) Company Income tax, salary calculation (REK-1 Report), reports on travel expenses and reports on all kinds of payments to natural persons
  
2. Which of the following documentation must a foreign investor's company keep permanently?
  - a) annual reports
  - b) issued invoices
  - c) transaction accounts
  - d) contracts and accounts for the purchase and sale of real estate
  
3. What is the current VAT rate in Slovenia?
  - a) general rate of 20%, reduced rate of 8%
  - b) general rate of 22%, reduced rate of 9.5%
  - c) general rate of 22%, reduced rate of 8.5%
  - d) general rate of 19%, reduced rate of 9.5%
  
4. Which business entity must register into the VAT system?
  - a) entity for which the amount of taxable turnover in the last 6 months exceeds € 50,000
  - b) entity for which the amount of taxable turnover in the last 6 months exceeds € 25,000
  - c) entity for which the amount of taxable turnover in the last 12 months exceeds € 25,000
  - d) entity for which the amount of taxable turnover in the last 12 months exceeds € 50,000
  
5. What is the Company Income Tax rate?
  - a) 19%
  - b) 18%
  - c) 22%
  - d) 9,5%
  
6. In which case can a sole proprietor opt for a flat rate taxation?

- a) In case that with respect to the standardised expenditure his/her Taxable Income from Business Operations has not exceeded € 50,000 or, in certain cases, € 100,000 in the tax year prior to establishing the tax base as determined in accordance with accounting standards, or if he/she is a new entrepreneur having selected this calculation mode when registering.
- b) In case that with respect to the standardised expenditure his/her Taxable Income from Business Operations has not exceeded € 50,000 or, in certain cases, € 100,000 in the previous 6 months, or if he/she is a new entrepreneur having selected this calculation mode when registering.
- c) In case he/she is a new entrepreneur having selected this calculation mode when registering.
- d) In case he/she invests in new business services or products.

7. Which types of income falls into taxation from Capital Gains?

- a) Income from interest, dividends and lottery winnings.
- b) Income from dividends, lottery winnings and profit from capital.
- c) Income from interest, dividends and profit from capital.
- d) Income from interest and profit from business.

8. Who of the listed doesn't need a tax number?

- a) a natural person with permanent or temporary residence in Slovenia;
- b) a natural person without permanent or temporary residence in Slovenia, making profit in Slovenia;
- c) an individual sole proprietor;
- d) a natural person without permanent or temporary residence in Slovenia, who is not making profit in Slovenia.

9. Is a tax number acquisition possible without personal presence of the company representative or a natural person?

- a) Yes
- b) No

10. How often must a sole proprietor pay a social security contribution to the Tax Office?

- a) Weekly
- b) Monthly
- c) Yearly
- d) Quarterly

11. . What are the social security costs of company members who are managers without an employee status?

- a) 85% of the average Slovenian gross salary of the previous year calculated on the monthly level
- b) 75% of the average Slovenian gross salary of the previous year calculated on the monthly level

- c) 65% of the average Slovenian gross salary of the previous year calculated on the monthly level
- d) 55% of the average Slovenian gross salary of the previous year calculated on the monthly level

12. What costs are included in the full-time employee's salary?

- a) Salary (net amount and social contributions), catering allowances during work, costs for electricity and yearly holiday allowance.
- b) Salary (net amount and social contributions), transport cost reimbursements, catering allowances during work and weekend allowances.
- c) Salary (net amount and social contributions), transport cost reimbursements, catering allowances during work and yearly holiday allowance.
- d) Salary (net amount and social contributions), transport cost reimbursements, catering allowances during work and yearly holiday allowance.

13. When should an FDI advisor check if a foreign investor needs to meet any specific requirements for the selected business activity?

- a) Before business registration
- b) Within 3 months from the registration date
- c) Never
- d) Within 12 months from the registration date

14. What documentation does a non-resident of Slovenia need to open an account in Slovenia?

- a) Valid personal identification document, tax number obtained in the Republic of Slovenia, registration number from the country where the person is resident.
- b) Valid personal identification document, registration number obtained in the Republic of Slovenia, registration number from the country where the person is resident.
- c) Employment contract, a registration number obtained in the Republic of Slovenia, a registration number from the country where the person is resident.
- d) A valid personal identification document, a tax number obtained in the Republic of Slovenia, a tax number from the country where the person is a resident.

15. What must a business entity have if it receives cash payments?

- a) Fiscal cash-register or a list of issued invoices.
- b) Fiscal cash-register or a linked books of accounts.
- c) Linked book of accounts or a list of issued invoices.
- d) Portable classical cash-register.

16. Is the amount allowed for the cash payments between business entities limited?

- a) No.
- b) Yes, but the amount of cash payments may not exceed EUR 5,000.
- c) Yes, but the amount of cash payments may not exceed EUR 420.
- d) Yes, but the amount of cash payments may not exceed EUR 50.

## Exercises:

### Exercise 1:

Find the chapter in the relevant law that defines business entities' obligations regarding annual reports.

Write your answer:

### Exercise 2:

In the relevant law find to which of the listed goods the reduced VAT rate implies!

Select the correct answer:

- a) food, entrance to cultural and sports events, TV production, burial and cremation services
- b) books, renting of accommodation facilities in hotels and similar accommodation facilities, use of sports objects, law counselling
- c) food, books, use of sports objects, import of art objects**
- d) accounting services, books, renting of accommodation facilities in hotels and similar accommodation facilities, the transport of persons and their personal luggage

### Exercise 3:

In the relevant online resources check if Uruguay has a valid Agreement on Avoidance of Double Taxation with Slovenia?

Write your answer:

### Exercise 4:

Fill in the form DR-02 for an imaginary foreign natural person, who doesn't have permanent or temporary residence permit in Slovenia. He needs the tax number because he will receive some taxable income based on author's work contract. The application will be submitted by an authorized person.

### Exercise 5:

Make a calculation for running a business from a rented office of 40m<sup>2</sup> with 2 employees, each one earning EUR 1000.

Write the answer:

### Exercise 6:

Find out if foreign investors need to fulfil any industry-specific requirements if they want to start a business in organizing tourist arrangements.

Write the answer:



## Module 3 - ACCOUNTING

Accounting is important for all entrepreneurs, therefore FDI advisors should have some basic knowledge about it in order to make the potential investor familiar with the rules of the country in which he is investing. In this module, you will learn what your candidates for FDI advisors should know about accounting.

### Glossary

**Account** - a document issued by the seller to the buyer for the products sold or services rendered. The account proves the execution of a job.

**Accounting** - a function in an organization or a company that records, analyzes, interprets business events and financial information products. Accounting can be divided into accounting, financial accounting and management accounting.

**Accounting Policies** - present rules and procedures adopted by an entrepreneur or management to prepare financial statements.

**Accounting Principles** - marks the initial principles that show business events as defined by accounting theory.

**Annual report** - a report which the owners present to the management of the bank or the company. This report describes the business in the past year and provides plans for further development. The annual report is presented and accepted at the annual assembly of the founders.

**Balance** - one of the fundamental financial statements showing the volume and structure of the assets, equity and liabilities of the enterprise on a specific day (regularly at the end of the accounting period). Fundamental relations in the balance sheet are as follows: assets (assets) = sources of financing (liabilities); total liabilities = capital + liabilities; total assets = capital + liabilities; liabilities = assets - capital; capital = assets - liabilities.

**Balance Sheet** - form of asset presentation and resources on a specific day.

**Cash flow** - denotes the cash flow in the business of the company.

**Cash register** - a place in a company where cash and securities transactions are performed.

**Claim** - the relationship between buyers and sellers in which the seller is seeking debt settlement for the goods or services sold.

**Costs** - the estimated consumption of production factors necessary for the production and sale of business performance and for the preservation of enterprises. We distinguish them according to different criteria.

**Currency** - paper money and coins issued by a state or a bank, which serves, when in circulation, as a means of exchange and a legal means of payment. Each country usually has its own currency. Payments between countries are made in currencies at a particular exchange rate. Currency exchange rates depend on the demand and offer of the respective currencies.

**Custom tax** - a tax on imports, and less on exports of goods; the amount of money that the state charges from the owner of the goods when it crosses the border. They are usually ad valorem, i.e. in percentage of the value of the goods, but they may also be specific (in a given amount per unit of weight or volume) and combined.

**Customs duties** - charged on goods imported into the Community customs territory from third countries not belonging to that territory. The rates are laid down in the Common Customs Tariff

of the Community and are applied in accordance with the common customs legislation of the EU.

**Customer** - an entity that buys goods or services from third parties.

**Debt** - the amount of money that the debtor has to settle.

**Depreciation** - a way of calculating (capital recovery, Ger. Abschreibung, Wertminderung, Fr. Amortissement). Depreciation is a gradual decrease in the value of an enterprise's assets and is calculated annually under the law according to procedures.

**Dividend** - a portion of the company's profits paid to shareholders. The amount of dividends is determined by the shareholders' meeting. Usually, the dividend level is determined in percentage of the share value.

**Economic flow** - displays all receipts, expenditures and their differences; makes the basis for calculating profitability and application of dynamic methods of evaluation of the investment project. This is the broader concept of cash flow. Receipts in the economic flow are not only revenue from the sale of effects but also the rest of the value of the project. Expenditures in the economic course are: investments and other expenditures related to investments, operating expenses without depreciation, special issues for the social standard, taxes on profit and allocation for reserves. Net income in the economic flow is defined as the difference between income and expenditures.

**Excise duties** - goods for which excise duties are charged include tobacco products, alcohol and alcoholic beverages, energy products (mineral oils, natural gas, coal and coke) and electricity. Excise duties are paid on excisable goods produced in Slovenia, imported from third countries or acquired from another EU Member State, if they are intended for consumption in Slovenia.

**Expenditure** - is contrary to income, denotes money and commodity payments for liabilities incurred. These are all types of costs caused by the business of legal and physical entities. The term expense appears primarily in bookkeeping as a component of the opposing income within the balance sheet of success. Given the purpose, expenditures are divided into business, finance and other expenditures. Business or regular expenses include costs arising from the acquisition of regular income or caused by the basic activity of entities (for example, material costs and depreciation, non-material costs, etc.). Alongside regular expenditures, other expenditures are also frequent. One of its properties is that it inevitably doesn't generate income.

**Goods** - a product of human labor intended for sale.

**Gross Balance** - recapitulative cumulative overview of the main book account turnover.

**Gross National Product** (GNP, Ger. Bruttonationalprodukt, BNP) is the value of all final goods and services produced by domestic production factors within a given period.

**Gross Profit** - derived in size that reflects the success of the business. It is obtained as the difference between all income (business, financial and other sources) and all expenditures (business, financial and other expenses) for a certain period of time.

**Income Statement** - shows revenue and expenses on a particular day.

**Income tax** - it is paid on the tax base at rates of 16% and 50%. Craft income as determined by business books is the difference between operating income and operating expenses incurred during the same tax period.

**Liabilities** - includes the own capital of the insurer, technical reserves, other reserves that contain provisions for the pensions of the insurer's employees and similar long-term and short-term liabilities and accrual items.

**Long-term assets** - all assets that permanently serve the business process in a company and are cashable over a period of one year. The purpose of this form of property is not resale.

**Long-term liabilities** - the liabilities of companies with the payment period longer than one year. They are in the passive balance sheet.

**Loss** - the negative business result of a company realized in a certain period of the year. Company expenses are higher than revenues.

**Notes** of the underlying financial statements are to enhance the preparation and supplementation of the balance sheet, profit and loss account, cash flow statement and statement of changes in equity.

**Personal income tax** - a tax on the income of natural persons. In Slovenia, it is governed by the Personal Income Tax Act (ZDoh-2). It is the revenue of the state budget and the municipalities. Income tax is subject to all income of residents of the Republic of Slovenia, with the exception of those for which ZDoh-2 expressly states that they are exempt from taxation and those income of non-residents with a source in Slovenia.

**Price** - a monetary expression of the value of a commodity formed under the mutual influence of supply and demand of that commodity on the market. The basic factors affecting the price formation are related to the offer, supply, needs and purchasing power of the consumer. Generally, marketing is considered to be a means, instrument, not the ultimate goal.

**Profit** - the difference between invested assets and the cost of business activity.

**Profit** - the difference between total revenue and total company expense.

**Profit tax** - a tax on the work of legal entities. Income tax is generated as a difference in income and expense. In Slovenia is the standard rate of income tax is 19% and 15% for general corporate profits tax.

**Profitability** - ratio of realized profit and invested funds.

**Pure cash flow** - the difference between cash receipts and cash outflows over a given period. The key category of financial access. Cash receipts are the money that a company receives from its environment and increase its cash flow. These include primarily the collection of customer receivables for realized products and services, as well as the receipt of interest payments, profits from other companies, claims for damages, etc.

**Retained earnings** - Retained earnings (Ger. einbehaltener, unverteilter, nicht ausgeschütteter, thesaurierter Gewinn) is a part of the company's equity principal, which was created by accumulating - retaining part of the realized profit from the previous accounting periods. It is in the balance sheet and shows the value of the equity of ordinary shareholders.

**Risk** - possibility of material and/or non-material loss. The concept of risk in a broader sense also means the notion of danger. In insurance, the concept of risk implies a secured risk of certain possible hazards, e.g. fire, accidents, etc.

**Salary** - a fee for work done. It is paid to employees on the basis of an employment contract signed by the director on behalf of the company with an employee. Salary is paid monthly as an advance of annual remuneration for work. At the end of the business year, a final salary calculation for each employee is done.

**Sales** - a change in the ownership of goods between the seller and the buyer.

**Statement of Income Balance** - Profit and Loss Account.

**Supplier** - a business partner that supplies goods or services to a company.

**Tax** - a portion of the revenue that the state takes to legal and natural persons to cover their expenditures, and in return, in return, does not make any compensation. These are not only the sources of financing of expenditures caused by the functioning of the state and administrative apparatus, but also the instruments of economic and social policy. Benefits of taxpayers from paid taxes are mostly direct (for example, roads, health facilities, schools, kindergartens, etc.). With regard to the subject of taxation, the tax differs from turnover, income, profit, total income of citizens.

**Tax on real estate transactions** - the type of tax on sold real estate which in Slovenia amounts to 2 %. This tax is charged on the selling price of a property at 2%, if no VAT was charged. The tax is payable by the seller unless agreed otherwise. There are exemptions for certain types of immovable property.

**Tax Rebate** - any reduction that impairs the tax base of the tax base. They are determined before determining the tax liability of the taxpayer. Types and forms of tax relief, as well as the manner of their application, are prescribed by the legislator.

**Tax Relief** - tax law in Slovenia allows tax relief on investments in elements of business research and development, on employment of the disabled, tax relief on student apprenticeships, on voluntary supplementary pension insurance and donations.

**Total Cash Flow** - the origin of money by separately observing cash flows from operating activities (operating cash flow), cash flow from investment or investment activities, and cash flows from financial activities.

**Total revenue** - represents all income of the enterprise.

**Value added tax (VAT)** - a form of sales tax, the realization of which is divided into partial payments made on the basis of value added at each stage of the production and distribution process. VAT is calculated and paid successively, at each sale, but only to the net value realized at each stage. Exports are made without this tax, and imports are burdened with the same rates as the national product. It can therefore be unique, but also differentiated into different types of goods or services.

### 3.1. CALCULATING AND REPORTING VARIOUS TAXES



In this section, you will receive the information on the topics that FDI advisors should become acquainted with: the theoretical framework of the tax system in the Republic of Slovenia, and the method of calculating and reporting various taxes.

After reading this unit, you will:

- become familiar with the concepts of Profit Tax, Income Tax and Value Added Tax.
- get to know the foundation institutes of the taxation system of the Republic of Slovenia.

#### 3.1.1. Overview / theoretical framework

Accounting tracks the business process and takes place in compliance with accounting standards by applying the legal regulations of a particular country. Further on we will take a look at tax regulations in the Republic of Slovenia and their application in the system of accounting of entrepreneurs, through the following parts:

- the fundamental features of the Slovenian tax system.
- profit tax.
- income tax.
- transfer of taxpayers to income tax inside the profit tax system.
- value added tax.

#### **The fundamental features of the tax system in the Republic of Slovenia**

The Slovenian tax system is based on a system of direct and indirect taxation. Direct taxes represent the income of the state that can either be paid by an individual personally or by his employer. Taxes are calculated as a certain percentage of the realized income or assets, which in Slovenia includes profit tax, income tax and surtax on income tax. Indirect taxes are those

taxes where the tax burden of taxpayers is borne by the end user through the price of a product or service, and in Slovenia there is value added tax, excise, custom duties and real estate tax.

Legal entities operations, income of residents and non-residents are taxed. Residents are taxed according to the global income taxation and are liable to pay tax on all income having its source in Slovenia and income that has a source outside Slovenia. Non-residents are obliged to pay income tax only on income from sources in Slovenia.

Taxes represent the revenue of the budget and are settled for the purpose of settling the public expenditure envisaged by the budget. Pursuant to the Constitution of the Republic of Slovenia, it is the obligation of each individual to participate in settling public expenditure in accordance with their own economic capacity. The general tax law categorizes public duties on taxes and other public revenues that include duties (the form of tax charged on the import of goods or services), fees (money for the use of a certain public good or payment of a particular act), contributions (giving for the purpose of using certain services for the exercise of certain rights), concession fees, fines for tax misdemeanors, and all allowances, the determination, collection and/or supervision of which fall under special regulations, and within the remit of the tax authority.

## **Profit tax**

The Corporate Income Tax Act is the underlying regulation governing the issue of profit tax. This Act regulates the system and introduces the obligation to pay corporate income tax.

The taxpayer is: a taxpaying company or other legal and natural person who carries out the economic activity in the Republic of Slovenia (tax resident of Republic of Slovenia) on an autonomous and permanent basis and for the purpose of obtaining profit, income or revenue or other economically assessable benefits.

From the balance sheet perspective, profits represent the difference between equity before taxation at the end and at the beginning of the period. Likewise, profit can also be defined from the perspective of profit and loss of an account, as the positive difference between realized income and expenses in the accounting period, on the basis of the law and in accordance with the accounting standards.

Profit tax is a tax based on the difference between income and expenses. In English, terminology it is called corporate/corporation income tax. The difference between income and expenses or gain realized in the accounting period is the basis of profit tax.

From the tax perspective, profit before tax (or gross profit) is the tax base increased for previously non-deductible expenses and reduced for deductions and relief, in accordance with the provisions of the Corporate Income Tax Act. Thus, there are certain differences between the accounting results of the financial results from the point of view of tax regulations, which represents the tax base, that are reflected in revenues and expenditures and may have the characteristics of permanent and temporary differences. An entrepreneur included in the system of profit tax is obliged to manage his business books and to compile reports in accordance with the state regulations and accounting standards, which implies the application of the principle of

dual bookkeeping. The tax period is usually the calendar year, although at the request of a taxpayer another tax period of up to 12 months can be determined. Tax on profit or loss from ordinary activities is determined at the rate of 19% on the tax base, which is the accounting profit determined on the basis of data from the business books of the trading company and the financial statements prepared in accordance with the accounting regulations, corrected for the prescribed deductions and increases.

Deferred tax is neither a tax nor a deferred tax. As a matter of substance, it would be more appropriate to name it “the tax that is fully charged”. It reflects differences between the carrying amount of assets and liabilities and their tax base. When a corporation has an accounting expense or income over a period of one year and when calculating a corporation tax in another year, the deferred tax must be recognized for those differences that are taxable and deductible, recognized by the principle of materiality.

In Slovenia, the standard rate of income tax is 19%, and 15% for general corporate profits tax.

More detailed information about the profit tax can be obtained on the web pages of [Financial Office of Republic of Slovenia](#).

## **Income tax**

There are two types of income taxes: corporate/business and personal income tax.

The Slovenian tax system is residential and corporations have full corporation tax liability. The tax residence criterion for legal entities is the seat of incorporation, meaning that the headquarters of the company must be based in Slovenia. A company can be considered a tax resident if its central management and control is exercised from Slovenia, although the actual seat might be situated in another country. Regardless of tax residence, it is possible for authorities to impose a tax on companies' incomes if the source of income is Slovenia, according to the income source approach. When doing so, the national tax authorities observe relevant tax treaties, in order to avoid double taxation.

Most of the companies operating a business in Slovenia have to pay corporate income tax. The general tax rate in Slovenia is 19%. Corporate income tax does not apply to a sole trader operating as an individual. If a business conducts trade in Slovenia, but its head office is in another country, it is tax due on income sourced in Slovenia. Possible tax returns are submitted in electronic form via [the eTax system](#). In order to submit the form via electronic tax system, the company has to obtain the appropriate digital certificate.

The annual basis for tax calculation is usually the calendar year. Companies that prove their business is seasonal by nature can be exempt from this condition. The same goes for subsidiaries of multinational corporations that dictate a different year base than the calendar year. Regardless of the timing shift, the non-calendar year must comprise of 12 months and must be kept for a minimum of three years.

Personal income tax rates in Slovenia apply only to sole traders and individuals that perform business activities in Slovenia. The Slovenian income tax prepayment calculation is made according to the income tax rate as defined in the tax schedule (from 16% to 50%).

Income from self-employment is income obtained from performing any entrepreneurial or independent activity. If the head office of a company is in another country but operating in Slovenia, it is obliged to pay tax on income earned in Slovenia.

The tax return for the prepayment of income tax must be submitted to the tax administration office by 31 March of the current year for the previous year at the latest. The document must be submitted in electronic form via the [eTax system](#).

The return does not have to be submitted by those sole traders and individuals who hold the status of a person paying normalised taxes.

### **Normalised taxation of trades**

Depending on the type of the business entity, there are two ways of determining taxable income.

**Standard corporations** are required to present the earnings minus the calculation of tax-recognised costs which is based on financial balance sheets. The surplus is taxed at a 19% rate. A tax loss is carried forward, which allows the companies with an annual capital loss (deficit) to offset the taxation of capital surplus in the future years.

The presumed costs of **companies with normalised expenses** amount to 80% of their income, regardless of factual information. This system is designed for small businesses (net income < EUR 50,000 or EUR 100,000, if they employ a minimum of one person for at least 5 months in a year), and allows them to limit their accounting to independently monitoring their sole income without the need for accounting services and standard financial balance sheets. They do not enjoy the privileges of the tax loss system, because the costs are presumed and the factual loss is not additionally investigated.

Normalised expenditure must be separated from the normalised costs, for example, in the case of student referrals, royalties, etc., in a certain percentage, regardless of whether the costs are actually incurred or not. Flat-rate expenditures account for 80% of the revenues identified by tax act and also include social security contributions. The tax base is equal to 20% of the revenue. The tax rate is 20% (Article 135a of the Personal Income Tax Act). The tax amounts to 4% of total revenue (20% x 20%).

Not all costs are considered tax-recognised costs. The general guiding principle is the notion of costs necessary for creating income. The authorities do not recognise costs that are either private by nature, non-compliant with established business practices, or do not correlate to the necessities for obtaining and creating income. A specific regulation governs the question of asset amortisation, the costs of a supervisory board and the costs of representation towards business partners. Costs such as picnics, sport club memberships and donations are permanently exempted from tax-recognised costs.

### **Value Added Tax – VAT**

The fundamental principles of value added tax (VAT) are:

- Basically, *VAT is a tax on consumption*, which means that VAT is ultimately paid by the final consumer in the form of a percentage supplement to the final price of goods or services. VAT is charged only to those buyers of goods and services that do not have the right to deduct VAT, which is mainly citizens or final consumers.
- It is *indirect tax* because the supplier of goods or services (taxable person) pays VAT on goods or services to the national tax administration after deducting the VAT already paid to suppliers.
- This is an *all-inclusive tax* payable for each service delivered and for each supply of goods from the added value added.
- It is a *turnover tax*, which means that it must be accounted for when the turnover has been made and in certain other cases which are determined by the ZDDV-1 (e.g., non-business use, ..)
- One of the essential features of value added tax is *to ensure fiscal neutrality among taxpayers*. Neutrality for the taxable person, the buyer of goods and services, means the right to deduct from the tax liability the input tax charged by the suppliers in the tax period.

VAT is one of the forms of turnover tax used to tax goods and services in all turnover phases, from producer and trader to end consumer. All persons must report to the tax authority when they start to carry out an activity as a taxable person, and if certain conditions are fulfilled, submit a request to receive an ID number for VAT. A person or entity becomes liable for VAT when annual turnover exceeds EUR 50,000.

When this happens, an application for the issue of a VAT identification number must be registered in the month when turnover is likely to exceed the annual threshold of EUR 50,000. An individual or a business can apply to become VAT registered even if his/its turnover does not reach the threshold. An application can be submitted when the company is being set up on condition that the applicant remains a taxable person for at least 60 months thereafter.

VAT is subject to added value. VAT is one of the forms of sales tax, which is subject to taxation of goods and services at all stages of transport, from producer, trader to final consumer. It is a consumable form of value added tax which is subject to taxation of goods and services at all stages of the exchange. In principle, the taxable person levies and pays VAT on every supply of goods or services, or from transactions that are regarded under the VAT legislation as supplies of goods or services, with the exception of certain specified transactions which are exempt from VAT.

In accordance with Slovenian VAT legislation, VAT is charged and paid for supplies of goods or services at a general rate of 22%, except for the supply of goods and services for which a lower rate of 9.5% is set. The list of goods and services to which a reduced rate of VAT is applicable is contained in Annex I to the ZDDV-1.

A person or an entity wishing to register for VAT must apply for a VAT identification number by submitting an electronic form via the eTax system (eDavki) or the e-Vem portal to the tax administration office.

The entire process of registration for VAT in Slovenia can also be carried out at a VEM point with free assistance from a specialist. (To review form DDV-P2.)

Based on the submitted application, the tax authority identifies the person or entity for VAT purposes: a VAT identification number is assigned which consists of alphanumeric characters, with the first two indicating the country the business is registered in (SI for Slovenia), and the number itself.

The Slovenian tax authority issues the VAT identification number by no later than the last day of the month following the month of application.

Every taxable person identified for VAT purposes is obliged to submit a VAT return.

A VAT return must be submitted for each tax period separately, whether the person or entity is liable to pay VAT for that tax period or not.

The deadline for submitting a VAT return is the last business day of the month following the end of the tax period and in some cases even earlier.

The DDV-O form may be sent to the tax office only in electronic form through the eTax system. Use of the e-Tax system requires a digital certificate.

Taxable persons identified for VAT must fulfil certain obligations determined by the VAT Act – ZDDV-1.

In certain cases, vehicle acquisition must be reported to a tax authority. The delivery of a new vehicle to another Member State must be reported to the tax authority.

Acquisition of means of transport from another member country is subject to VAT taxation in Slovenia.

The exemption of taxes for diplomatic and consular posts, agencies and EU authorities, as well as international organisations in compliance with international agreements binding on the Republic of Slovenia can be claimed as direct exemption or paid tax refund.

A taxable person without a head office in Slovenia who occasionally carries out international road transport of passenger with vehicles that are not registered in Slovenia cannot claim the VAT deduction or refund, and if he does not carry out any other transactions subject to VAT in Slovenia he can use a special regulation for these services.

Taxable persons who provide telecommunications services, lease services or electronic services to persons who are not liable for tax may use a special regulation for services that are carried out under another regulation.

In case of VAT, the latter is levied for each participant in the chain and at the same time the VAT is deducted from this amount that was included in the production factors in previous stages. Thus, in fact, only the difference between the tax charged at the next stage or the final consumer and the tax charged for the purchase is paid to the budgetary fund.

In particular, this means that the VAT charged on issued invoices is reduced by the value of VAT charged on received invoices for goods and services that are directly related to your business.

Indeed, the taxpayer does not actually pay the state the tax to be charged on issued invoices, since he can deduct from that tax the invoice charged in received invoices (even when importing and in the case of self-taxation).

### **3.1.2. Important / Exceptions**

#### **Taxation of transactions with real estate property with VAT**

A taxable person performing transactions for which VAT exemption is set out in points 2, 7 and 8 of Article 44 of the ZDDV-1 may be the tenant, the lessee or the buyer of the real

estate - taxable persons entitled to the deduction of the total VAT to be charged VAT on the prescribed rates from those transactions which should be exempted from VAT. Of the transactions listed above, VAT is charged if they submit each of their statements.

## **3.2. BASICS OF ACCOUNTING**

This unit will familiarise you with some important basic accounting terms, accounting standards and accounting concepts, that your candidates for FDI advisors should know.

### **3.2.1. Overview / Theoretical framework**

Accounting is a framework that measures business activities, forms data and information into reports and makes that information accessible to decision-makers. The reports, which impart this information about the performance of an association in fiscal and financial terms, are called financial statements.

#### **Meaning of Accounting**

Accounting is usually defined as "the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by the users of the information" (American Accounting Association, 1977).

This information has a primarily financial function. Therefore, Accounting is a communication system used to document the activities of earnings – for business companies and for non-profit institutions. Accounting provides information that allows for detailed and efficient judgments and decisions by the end-users of the information. The process of accounting offers these essential financial data to a wide range of individuals whose objectives for studying the data may vary substantially.

For example, bank officers may need a company's financial statements and data to evaluate the ability of the company to pay a loan. In addition, interested investors may want to compare financial data from different companies to help them decide which company represents the best investment. It is essential for decision makers to have reliable and comprehensive information before they can make a decision and invest money and resources.

Also, the management of a company, owners of the company or sole proprietors can make decisions about the future business steps based on the accounting data.

More specifically, accounting information is extremely valuable for potential investors, interested in investing in existing business, because they can use it to evaluate the financial impact of different alternatives. In this way, they can monitor and reduce the risks involved in investment by using the judgment of professionals and experts to quantify the future financial consequences of implementing an action or delaying an action.

Finally, accounting is often confused with bookkeeping. Bookkeeping is defined as "a mechanical process that records the routine economic activities of a business" (Edwards J.D., et al. 2011). As it is widely accepted, accounting consists of bookkeeping; however, it also goes well beyond bookkeeping in scope.

Accountants examine and interpret economic and financial information, prepare statements, audits, develop and design accounting systems, prepare financial studies, forecasts and budgets and provide a plethora of other services.

**Key objectives**

The **key objectives** of accounting can be summarized as follows.

- Recording

The most basic role of accounting is to record and summarize business transactions and balances. This process is often referred to as “bookkeeping” and is fundamental in managing any financial ventures and investments (read more about bookkeeping in unit 3: Basics of bookkeeping, bookkeeping rules).

This kind of information is not only useful for the managers of a business - to keep track of the financial health and performance of a business - but is also important for prospective investors and other stakeholders.

- Planning

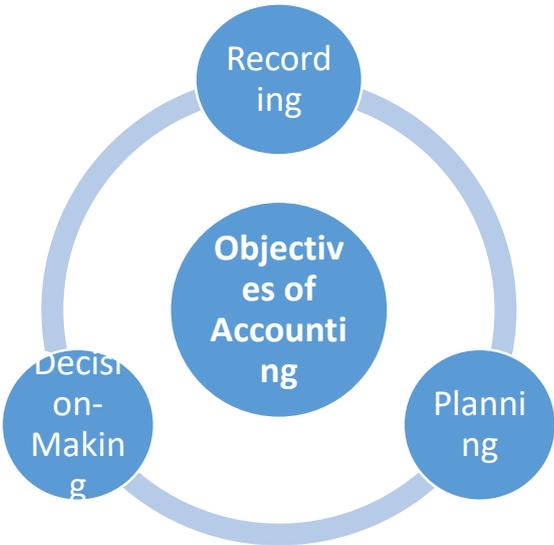
Organizations and individuals need to plan how they will allocate their limited resources (cash, labour, materials and equipment...) so that they can reach the competitive demands of the future. An effective manner of doing so is through the use of various forms of budgets.

Budgeting is a prime component of managerial accounting. Budgets permit organizations and individuals to plan for the future by anticipating future needs and resources.

- Decision-making

Accounting’s other important role is to provide information and analysis for decision-making and control.

Accounting provides a basis for evaluation of the overall performance over a time period which promotes accountability.



## **Branches of Accounting**

Accounting is divided into numerous areas of activity - branches. These regularly overlap and are often intertwined. However, it is beneficial to distinguish them and learn basic information concerning each area. As Roger Wohlner mentions in *Accounting Basics*, accounting is divided in the following branches:

### **1. Financial Accounting**

Financial accounting involves recording and classifying business transactions, preparing and presenting financial statements to be used by internal and external users. Financial accounting is primarily concerned in processing historical data.

### **2. Management Accounting**

Managerial or management accounting emphasizes the preparation and analysis of accounting information for use by internal users, within a company. Management accounting deals with the needs of the internal users, the management, in preference to strict compliance with Generally Accepted Accounting Principles.

Management accounting involves financial analysis, budgeting and forecasting, cost analysis, evaluation of business decisions, and other similar areas.

### **3. Auditing**

External auditing is the analysis of financial statements by an independent party with the purpose of examining the fairness of presentation and compliance with Generally Accepted Accounting Principles. Internal auditing emphasizes the evaluating of adequacy of an organisation's internal control structure by testing segregation of duties, policies and procedures, degrees of authorization, and other controls implemented by management.

### **4. Tax Accounting**

Tax accounting helps to comply with regulations set by tax authorities. It includes tax planning and preparation of tax returns. It additionally entails determination of income tax and various other taxes, tax advisory services, for example finding ways to limit taxes legally, evaluation of the consequences of tax decisions, and other tax-related matters.

### **5. Forensic Accounting**

Forensic accounting involves court and litigation cases, fraud investigation, claims and dispute resolution, and other areas that involve legal matters. This is one of the popular trends in accounting today.

Other branches of accounting, relevant also to FDI investors, include:

### **6. Accounting Information System**

Accounting information system (AIS) involves the development, installation, implementation, and monitoring of accounting procedures and systems used in the accounting process. It includes the use of business forms, accounting personnel direction, and software management.

## 7. Fiduciary Accounting

Fiduciary accounting involves handling of accounts managed by a person entrusted with the custody and management of property of or for the benefit of another person. Examples of fiduciary accounting include trust accounting, receivership, and estate accounting.

## Accounting Concepts and Conventions

Furthermore, to fully understand how accounting works one has to know the basic accounting concepts. The following list includes a summary of these accounting concepts. The terms are taken from the article *Basic accounting concepts* (Bragg S. 2017).

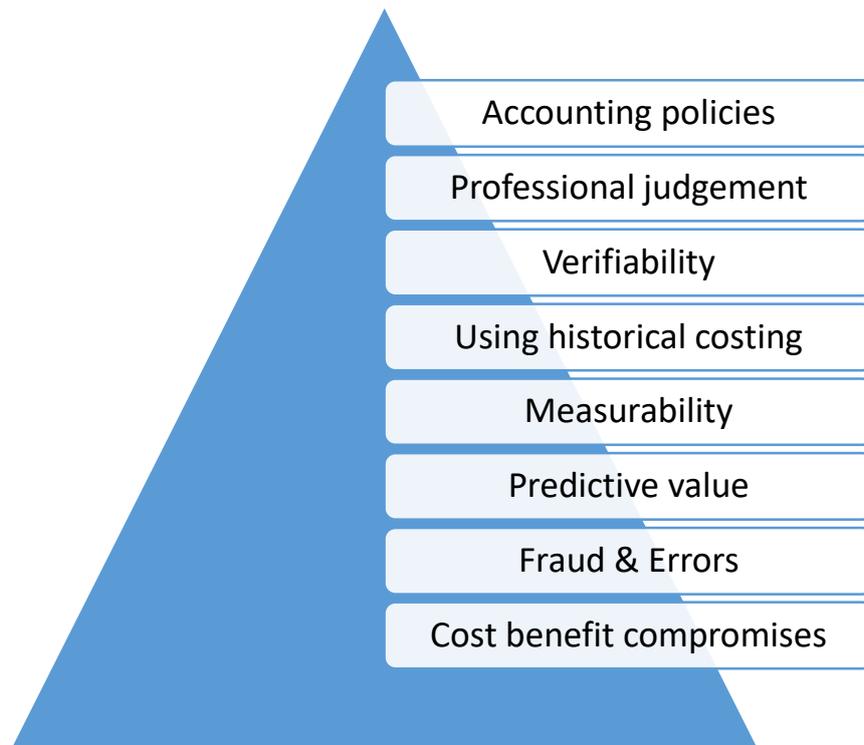
- *Business entity concept*: according to this concept the business and its owners are two different independent entities and their transactions are to be kept separate, for accounting purposes.
- *Accruals concept*. Revenues are recognized when earned, and expenses are recognized when assets are consumed. This concept means that a business may recognize sales, profits and losses in amounts that vary from what would be recognized based on the cash received from customers or when cash is paid to suppliers and employees. Auditors will only certify the financial statements of a business that have been prepared under the accruals concept.
- *Conservatism concept*. Revenues are only recognized when there is a reasonable certainty that they will be realized, whereas expenses are recognized sooner, when there is a reasonable possibility that they will be incurred. This concept tends to result in more conservative financial statements.
- *Consistency concept*. Once a business chooses to use a specific accounting method, it should continue using it on a go-forward basis. By doing so, the financial statements prepared in multiple periods can be reliably compared.
- *Going concern concept*. Financial statements are prepared on the assumption that the business will remain in operation in future periods. Under this assumption, revenue and expense recognition may be deferred to a future period, when the company is still operating. Otherwise, all expense recognition in particular would be accelerated into the current period.
- *Matching concept*. The expenses related to revenue should be recognized in the same period in which the revenue was recognized. By doing this, there is no deferral of expense recognition into later reporting periods, so that someone viewing a company's financial statements can be assured that all aspects of a transaction have been recorded at the same time.
- *Materiality concept*. Transactions should be recorded lest the decisions made by the reader of a company's financial statements would be altered. This tends to result in relatively small-size transactions being recorded, so that the financial statements comprehensively represent the financial results, financial position, and cash flows of a business.

### 3.2.2. Important / exceptions

#### I. Limitations of accounting

Regardless of accounting's huge advantages, there are limitations of accounting that every accountant, advisor and businessperson must be aware of.

The main limitations of accountancy and financial statements fall into the following categories, as shown in this figure:



1. Accounting policies: often accounting policies vary from country to country as there is no global standard, thus creating confusion.
2. Professional judgement: professional judgement is common when applying accounting policies. Because it is subjective, the interpretation of the accounting standards and application will create differences in the judgement.
3. Verifiability: an audit can provide reasonable but not undeniable guarantees of the accuracy of financial statements.
4. Using historical costing: using the method of historical cost to measure assets does not manage to account the changes in values over time. This again leads to the trap of making accounting information subjective, as the assets may not have the same value today.

5. **Measurability:** financial statements cannot estimate resources that don't have a monetary value. Consequently, these resources will not be assigned a reasonable value.
6. **Predictive value:** as financial statements present the accounting picture of a company in a past period, there is often limited insight into prospects and a lack of predictive value that is essential for investors.
7. **Fraud & Errors:** to err is human; usually, there is always room for errors and/or fraud in financial statements. This can ultimately undermine the credibility and reliability of the statements and all information.
8. **Cost benefit compromises:** the quality of accounting information can be compromised due to the cost of producing reliable information.

## **II. Accounting as an information system**

Another key role of Accounting is accounting as an Information System. Accounting Information System (AIS) is “a structure that a business uses to collect, store, manage, process, retrieve and report its financial data so that it can be used by accountants, consultants, business analysts, managers, chief financial officers (CFOs), auditors and regulatory and tax agencies” (Fontinelle A., 2018). In particular, trained accountants work with AIS to ensure the highest level of accuracy of financial transactions and record keeping of an organisation and to make financial data easily available to those who need access to it for legitimate reasons, while maintaining statistics and data intact and secure.

### **a) Components of an Accounting Information System**

Accounting information system generally consists of six main parts: people, procedures and instructions, data, software, information technology infrastructure and internal controls.

### **b) Types of an Accounting Information System**

There are multiple types or categories of accounting information systems. What a business firm uses depends on the type of business, the size of the business, and the needs and scope of the business.

### **3.2.3. Tips from professionals**

One of the most common challenges that accountants nowadays face are the rapid technology changes that have a considerable effect on the sector.

As stated by David Emmerman, CPA and Xero Ambassador, “accountants need to adapt to the new technology that’s coming out there and not be afraid [...] and move forward with everything, [Accountants need to] look at better processes that our clients can really embrace and will allow them to be more successful, which in turn, allows us to be more successful.”



### 3.3. BASICS OF BOOKKEEPING, BOOKKEEPING RULES

Bookkeeping is the most important part of accountancy, it is orientated in the past, and only records business events.

Bookkeeping is a business function the task of which is to track business changes in business operations that reflect the assets, liabilities, capital, revenues and costs of each business entity. Recording of business changes is based on business documentation, i.e. a set of documents that follow a certain business change (input, output) to determine how certain changes have occurred. The aforementioned documents contain all the information that is required for a Bookkeeper to work successfully and monitor the business changes.

Bookkeeping is a demanding task that does not suffer superficiality and improvisation.

After going through this unit, you will:

- understand the basics of bookkeeping and bookkeeping rules.
- realise the differences between accountancy and bookkeeping.
- know the basic concepts of an Account plan.



#### 3.3.1. Overview / theoretical framework

Bookkeeping is part of accountancy in which records of business events are recorded in business books using the dual bookkeeping method. In double-entry bookkeeping, business changes are reported that lead to an increase or decrease in assets, liabilities or capital. It is important to note that a business change has to be recorded and must have a certain value. The principle of double-entry bookkeeping is based on the fact that any business change at the same time leads to an increase in an asset item while simultaneously reducing another asset, liability item or capital.

## Differences between accountancy and bookkeeping

Accountants must understand financial reporting, many regulations, in particular income tax rules, value added tax, accounting standards, and be able to present all types of accounting information to managers, present financial statements and offer alternative solutions that would improve and optimize business operations.

Accounting can be defined as the most important source of information about a company, i.e. a comprehensive system of records in which plans, records, controls and analyzes of the assets and operations of the company can be performed, and on that basis the accounting and financial statements are compiled.

Accounting is the skill of recording, classifying and shortening the presentation in the cash units of expressed business transactions, and of interpreting the results.

Accounting is a service function that collects, processes and presents accounting information about business operations and interesting users.

Bookkeeping is the daily entry of business changes into the accounting system, i.e. the recording and classification of routine transactions, in accordance with legislation and regulations.

### I. Account plan

The Account Plan appeared in accountancy for the first time at the end of the 19<sup>th</sup> century, while its more significant application began in the 1950s. The Account Plan is an instrument by which the main book items are sorted in such a way that a user can check easily and in an organized manner what is recorded in the business owner's main book. This is achieved in such a way that each group of items in the balance sheet carries its own broader range according to the previously established accounting plan. The way entrepreneurs draw up an Account plan is different in some countries. Hence, the obligation to apply an Account plan may be regulated in the sense that:

- it is recommended to apply an Account Plan.
- elaborating on the content of an Account plan of an entrepreneur the state establishes an accounting framework.
- the state prescribes the content of the account plan for which the required obligations have been prescribed.

In Slovenia legal persons and sole proprietors are obliged to keep their books of account and compile annual reports pursuant to the provisions of the Accounting Act in Slovenia and other regulations, the Code of Accounting Principles, and the Slovene Accounting Standards (SAS).



## II. Account Schedule in Accounting Plan

The principles that form the basis of the classifications of an Account plan, as well as their positions in the balance sheet, the profit and losses of the account, and other financial statements.

The basic classification positions are:

- Assets (assets).
- Capital (principal) and liabilities (obligations).
- Expenses.
- Income.
- The result of the current period.

The allocation of accounts in the chart of accounts is based on the functional or balance principle or on the connection of both. Slovenian chart of accounts and plans are based on process-based accounting.

The frame of reference and the chart of accounts must be considered in terms of their breadth and depth. Their width usually involves the use of ten chart classes, which are marked from 0 to 9:

CLASS 0 - long-term assets, receivables for registered and unpaid capital.

CLASS 1 - money, short-term receivables, short-term financial assets, costs for the future period and accrued income.

CLASS 2 - short-term liabilities, deferred payment of expenses and income for the upcoming period.

CLASS 3 - stock of raw materials and materials, spare parts and small inventory.

CLASS 4 - business expenses.

CLASS 5 - internal calculation (free development).

CLASS 6 - current production stocks, goods, merchandise, biological assets and non-current assets available for sale.

CLASS 7 - expenditures and revenues.

CLASS 8 - business results.

CLASS 9 - equity and reserves, long-term provisions, long-term liabilities and off-balance sheet items.

*Balancing principle* - the characteristic of this principle is the account plan in which positions are classified in the balance sheet and in the income statement. This means that the accounts of the assets are entered first and then the liabilities, followed by the expenses of the accounts, and then income and operating results.

*The combined principle* - applying this principle to the accounts is divided by a combination of the function and balance principles.

### **III. Accounting Principles**

International Accounting Standards (IAS) 1 - sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. It requires an entity to present a complete set of financial statements at least annually, with comparative amounts for the preceding year (including comparative amounts in the notes). A complete set of financial statements, based also on Slovenian accounting standards, comprises:

- a statement of financial position as at the end of the period;
- a statement of profit and loss and other comprehensive income for the period. Other comprehensive income is represented by those items of income and expenses that are not recognised in profit or loss in accordance with International Financial Reporting Standards (IFRS Standards). IAS 1 allows an entity to present a single combined statement of profit and loss and other comprehensive income or two separate statements;
- a statement of changes in equity for the period;
- a statement of cash flows for the period;
- notes, comprising a summary of significant accounting policies and other explanatory information; and
- a statement of financial position as at the beginning of the preceding comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

An entity the financial statements of which comply with IFRS Standards must make an explicit and unreserved statement of such compliance in the notes. An entity must not describe financial statements as complying with IFRS Standards unless they comply with all the requirements of the Standards. The application of IFRS Standards, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation. IAS 1 also deals with going concern issues, offsetting and changes in presentation or classification.

### **IV. Accounting based on legal and professional standards**

The organization of accounting in business entities is a complex process and depends on a number of factors that can be internal or external. Internal factors are different in each business subject and depend on the business involved, the size of entrepreneurs, management, etc.

External factors are accounting regulations, which include the Accounting Act, International Accounting Standards and International Financial Reporting Standards and in Slovenia, Slovenian Accounting Standards (SAS).

**Slovenian Accounting Standards (SAS)** are prescribed rules and principles on professional conduct in accounting. These are the fundamental rules of financial accounting that determine when and how a particular event is recognized, measured and reported in the books and financial statements.

Users of financial statements, such as tax authorities, banks, business partners (suppliers and buyers), or generally investors, are quite dependent on accounting standards, since they allow

organizations to disclose relevant and accurate information in the accounts. Without the standards, the financial statements would be unreliable and incomparable.

Slovenian Accounting Standards are compiled and issued by the Slovenian Institute of Auditors, which is authorized by the state for regulating and supervising the accounting profession in the Republic of Slovenia.

The Slovenian Accounting Standards were updated in 2015 and entered into force on 1 January 2016. That is why they are known as SRS 2016. This is the latest version of Slovenian Accounting Standards. The previous version dated from 2006. Slovenian Accounting Standards are in line with International Financial Reporting Standards (IFRS).

The entire Slovenian Accounting Standards comprise:

- introduction to SAS,
- the SAS framework,
- individual SAS.

Individual standards are divided into three basic groups:

- Standards I - standards governing economic categories;
- Standards II - standards for external financial reporting;
- Standards III - specificity standards for organizations in individual activities.

**Slovenian Accounting Standards (SAS)** are presented in the following list:

- SAS 1 – Property, plant and equipment
- SAS 2 – Intangible assets
- SAS 3 – Financial investments
- SAS 4 – Stocks
- SAS 5 – Receivables
- SAS 6 – Investment property
- SAS 7 – Cash
- SAS 8 – Capital
- SAS 9 – Debts
- SAS 10 – Provisions
- SAS 11 – Time deferred revenues
- SAS 12 – Costs of materials and services
- SAS 13 – Labor costs, Wages and salaries
- SAS 14 – Resources
- SAS 15 – Revenues
- SAS 16 – Determination and measurement of fair value
- SAS 17 – Impairment of property, plant and equipment and intangible assets
- SAS 20 – Audited balance sheet for external business reporting
- SAS 21 – Audited income statement for external business reporting
- SAS 22 – Audited Cash Flows Statement for external business reporting
- SAS 23 – Audited capital flows for external business reporting
- SAS 30 – Accounting solutions for sole trader
- SAS 31 – Accounting solutions in cooperatives
- SAS 32 – Accounting Solutions for public utility operators
- SAS 33 – Accounting solutions in societies and disability organizations
- SAS 34 – Accounting solutions in non-profit organizations - legal entities of private law

- SAS 35 – Accounting solutions in social enterprises
- SAS 39 – Accounting solutions in organizations in bankruptcy or liquidation

**In the list below, you can check Numbers and Names of International Financial Reporting Standards (IFRS).**

- IFRS 1 – First implementation of international financial reporting standards
- IFRS 2 – Share-based payments
- IFRS 3 – Business connections
- IFRS 4 – Insurance contracts
- IFRS 5 – Long - term assets intended for sale and termination of operations
- IFRS 6 – Exploration and evaluation of mineral resources
- IFRS 7 – Financial instruments: disclosures
- IFRS 8 – Business segments
- IFRS 10 – Consolidated financial statements
- IFRS 11 – Joint ventures
- IFRS 12 – Publishing shares in other entities
- IFRS 13 – Measurement of fair value

**Finally, please take a look also at the list of Numbers and Names of International Accounting Standards (IAS).**

- IAS 1 – Presentation of financial statements
- IAS 2 - Supplies
- IAS 7 – Cashflow statements
- IAS 8 - Accounting policies, changes in accounting estimates and errors
- IAS 10 - Events after the reporting period
- IAS 11 – Construction contracts
- IAS 12 – Profit tax
- IAS 16 – Real estate, production plants and equipment
- IAS 17 - Leasing
- IAS 18 - Revenues
- IAS 19 – Employee income
- IAS 20 - Accounting for state aid
- IAS 21 - Effects of currency exchange rate changes
- IAS 23 – Rental costs
- IAS 24 - Publishing related persons
- IAS 26 - Accounting and pension plans reporting
- IAS 27 - Unconsolidated financial statements
- IAS 28 - Shares in affiliated entities and joint ventures
- IAS 29 - Financial reporting in hyperinflationary economies
- IAS 32 - Financial Instruments: Presentation
- IAS 33 - Earnings per share
- IAS 34 - Financial reporting for periods over the year
- IAS 36 – Reduction of assets
- IAS 37 - Provisions, contingent liabilities and contingent assets

IAS 38 - Intangible assets  
IAS 39 - Financial instruments: Recognition and Measurement  
IAS 40 - Real estate investments  
IAS 41 - Agriculture

### **3.3.2. Important / exceptions**

Both the Slovenian and European regulations of a company size are divided by size into micro, small, medium-sized and large companies. The definitions mainly focus on the number of employees and the annual balance sheet.

The criteria for the classification of companies are determined by Article 55 of the Companies Act (ZGD). Entrepreneurs are divided into micro, small, medium-sized and large, depending on the indicators established on the last business day of the previous business year for which the financial statements are prepared. Indicators that represent the basis for determining which business falls into which category, are divided as such:

- average number of employees during the business year.
- the amount of revenue.
- the amount of total assets.

Article 55 of the Companies Act also defines the possibility of moving companies between categories or reclassifications. This happens if, on the basis of the data for the last two consecutive business years, the companies exceed or cease to exceed the criteria set at the balance sheet date of the balance sheet.

*Micro enterprises* are those who do not exceed the boundary indicators in two of the following three conditions:

- the average number of employees in the financial year does not exceed 10;
- net sales revenues do not exceed EUR 700,000;
- the value of assets does not exceed EUR 350,000.

*Small enterprises* are those which are not micro enterprises, and do not exceed the boundary indicators in two of the following three conditions:

- the average number of employees in the financial year does not exceed 50;
- net sales revenues do not exceed EUR 8,000,000;
- the value of assets does not exceed EUR 4,000,000.

*Medium-sized enterprises* are those which are neither micro nor small companies, and do not cross the boundary indicators in two of the following three conditions:

- the average number of employees in the financial year does not exceed 250;
- net sales revenues do not exceed EUR 40,000,000;
- the value of assets does not exceed EUR 20,000,000.

*A large company* is a company that is not a micro, small or medium-sized company under the aforementioned criteria. In any case, among the large companies in Slovenia, there are public interest entities, a stock exchange and companies that need to prepare a consolidated annual report (Banks, Savings Banks, Housing Savings, Electronic Money Institutions, Insurance Companies, Reinsurance Companies, Leasing Companies, UCITS Fund Management Companies, Alternative Investment Fund Management Companies, UCITS Funds, Alternative Investment Funds, etc).

However, Slovenia does not apply exactly the same criteria as the European Union. Therefore, before applying for a tender, you must make sure that your company falls into the appropriate category according to the criteria of the tenderer.

### **3.3.3. Tips from professionals**

Accounting concepts differ therefore it is important to define the exact moment when the measurement and recognition of elements of financial statements have been carried out - whether this should be at the time that the cash flow was created, or at the time of the business event. The accounting concept also points to the basis of measurement of the elements of the financial statements, i.e. whether the total economic resources, financial resources, only the current part of the financial resources, or the cash flow and the balance are measured. In the aforementioned scenario, two fundamentals of accounting concepts are distinguished: the cash concept (the cash principle) and the concept of the event, also known as the accounting concept.

## 3.4. Economic categories

This chapter is designed to introduce concepts of economic categories, their classification and basic features which FDI advisors should be familiarized with.

With this knowledge you will become:

- proficient in basic concepts of economic categories
- good identifiers of the characteristics of economic categories and their basic classification.

### 3.4.1. Overview / Theoretical framework

#### Accounting Categories

Accounting categories and terms are defined by accounting standards. These are the principles and rules of recognition, measurement and classification of business events and the preparation and presentation of financial statements. Accounting standards are not static. They are being continuously complemented and changed, parallel to the development of accounting theory and practice.

Slovenia is applying domestic and international financial reporting standards as accounting standards which are subject to the Accounting Act.

Slovenian Accounting Standards are established and interpreted by the Slovenian Institute of Auditors, which is authorized by the state for regulating and supervising the accounting profession in the Republic of Slovenia.

Let's start with the balance sheet, which illustrates the *assets* (those elements of the company without which business can not be organized the at all and which are divided into long-term and short-term) and *liabilities to their sources* (capital and liabilities). Income statement is a financial statement which shows the results of operating activities in a certain time period. The usual period is a year. It shows *incomes* and *expenses*. The difference between incomes and expenses is the result of operations during the period considered – *profit* or *loss*.

#### A. Asset

An asset is a resource or property having a monetary/economic value, owned by an individual or entity, which is capable of producing some future economic benefit. Assets are generally brought in business to benefit from them and to increase the value of a business.

An asset may be used individually or in combination with other assets in the production of goods or services that an entrepreneur will sell, exchanged for another asset, used to settle obligations or divided among the owners.

Assets are reported on a company's balance sheet, and they are bought or created to increase the value of a firm or benefit the firm's operations.

An asset can be thought of as something that can generate cash flow in the future, reduce expenses, improve sales, regardless of whether it is a company's manufacturing equipment or a patent for a particular technology.

One of the classifications of assets is based on their physical existence. According to this classification, an asset is either a tangible asset, intangible asset or money.

According to classification of the assets based on their function and lifetime, there are two types of assets:

- long-term assets (or fixed assets).
- current assets (or short-term assets).

Long-term assets are those that are usually restructured over a period longer than one year. They consist of:

- intangible assets (patents, licenses, computer programs).
- tangible fixed assets (land, buildings, equipment).
- investment property (i.e. real estate used for the purpose of renting since the beginning of the acquisition).
- long-term financial investments (loans granted, securities investments).
- long-term operating receivables.
- long-term deferred costs and accrued revenues (development costs, investments in foreign tangible fixed assets - investments in real estate rented out).

Current assets are those that are usually transformed over a period of time shorter than one year. They consist of:

- assets for sale.
- stocks (material, packaging, merchandise, finished products).
- short-term operating receivables (to customers, receivables for input VAT).
- short-term financial investments (loans granted).
- cash funds (cash on a bank account, cash stock).
- short-term deferred costs (short-term deferred costs - example: insurance paid once a year, at the expense of the monthly premium, since we pay the entire premium in advance and it does not represent the cost of the month in which we paid it).

Fixed (long-term) financial assets are shares in affiliated enterprises, loans given to affiliated enterprises, interests, investments in bonds, loans, deposits, personal shares etc.

Current (short-term) assets are expected to be converted into cash in a very short time, usually within one year. Commonly, they include: money, investments in active securities and supplies. Current assets appear in all three basic forms: goods, rights and money.

The balance sheet of the current (short-term) assets includes:

- supplies.
- short-term receivables (from customers, affiliated companies, employees, government).
- short-term financial assets (received short-term securities - cheques, bills), short-term given loans, given deposits, shares in affiliated companies etc.).
- cash and cash equivalents (money in banks and in cash registers, foreign currency payments, etc.).

- actual time delays (prepaid costs for the future periods and undue revenue collection).

## **B. Liability**

Liability is a company's financial debt or obligations that arise during the course of its business operations. Recorded on the right side of the balance sheet, liabilities include loans, mortgages, obligations towards suppliers, deferred revenues, etc.

According to the International Accounting Standards, liability is defined as the current obligation of a company resulting from past events. The settlement of those liabilities would result in the outflow of resources containing economic benefits.

Liability is the duty or the responsibility to act or do something in a certain way. Liabilities can be legally enforceable and can be derived from business practices.

Payoff of the current liability can be accomplished in several ways: by cash payment, by transferring another asset, by providing services, by replacing one liability with another, or by creditor losing his rights or waiving them.

According to the payment deadline, there are two types of liabilities:

Short-term liabilities are expected to be settled within one year, counting from the balance sheet date. Short-term liabilities include liabilities for received loans, deposits from citizens or other companies from the country of origin or abroad with a payment deadline of less than a year.

Long-term liabilities are usually incurred for the purpose of acquiring long-term assets or refinancing long-term assets that have not matured.

Each asset has its own source. Liabilities are composed of:

- capital (own capital is considered to be the capital that is expressed as an obligation to the owners and divided into the called-up capital invested by the owners when it is incorporated into the company, capital reserves, reserves from profit, retained earnings, revaluation surplus and net profit or loss);

- debts (foreign equity represented by provisions and accrued costs and deferred revenue, long-term financial liabilities, long-term operating liabilities, short-term financial liabilities, short-term operating liabilities and short-term accrued costs and deferred revenue).

## **C. Capital**

When establishing, owners of an asset may invest in a company as part of a capital contribution, but they may immediately sell the asset to an entity, thereby showing liabilities to sources or owners. Liabilities indicate where the funds come from, or who owns them.

A permanent source of funds means an obligation to the owners which is disclosed as equity. Thus, we can talk about capital adequately when a company has at least those fixed assets which

are covered by its own resources (using equity capital). This information is very important in the negotiation of a loan.

Capital refers to financial assets or the financial value of assets which are left to the owners after all liabilities are settled.

In the case of a joint-stock company, the capital is expressed as a "share capital" and when it comes to a limited liability company, it is expressed as a "registered basic capital".

The balance sheet is breaking down liability into registered capital, capital reserves, reserves, revaluation reserves, retained earnings, profit or loss brought forward, earnings or loss for the current year.

Capital can be invested in several forms:

- money: by paying to the bank account of a company
- things: by placing a plant, equipment, supplies, etc. into a company
- rights: by entering a patent, license or some other right into a company.

Regardless of whether it is a joint-stock company or a limited liability company, the capital includes:

- equity capital brought directly to the company by owners,
- earned capital.

The earned capital is the result of business activities of the entrepreneurs. It represents the difference between income and expense after taxation, i.e. after payment of capital gains tax. Based on the decision of the company's management, instead of being paid to the owners, the earned capital can be transferred to retained earnings.

There are several ways to increase your own capital:

- by bringing the new basic capital to the company, by new members joining the company;
- by recapitalization, i.e. by increasing the basic capital by the existing members of the company;
- in the case of joint stock companies (d.d.) with public offering and capital gains.

Capital reduction occurs in the following cases:- current year losses;  
- payment of gains for the current year or retained earnings of previous years to the owners, i.e. the payment of dividends to shareholders in the case of the joint stock companies;  
- repayment of the stake from the basic capital to the investor who exits the company;  
- impairments from revaluation reserves of reduced value of already revalued long-term assets.

#### **D. Income**

Income is the gross of cashflow, claims or other benefits arising from the regular activities of a company from the sale of goods, provision of services and from the use of resources of other companies that make interest on royalties and dividends. Income is measured by claims from buyers and customers for delivered goods and services performed, and by fees and merits

resulting from the use of buyers' and customers' resources. Amounts charged on behalf of third parties, such as certain taxes, are excluded. In a representative relationship, the income is the amount of commission, rather than the gross cashflow, claims or other fees.

Income recognition mainly refers to the situation when the income is recognized in the company's profit statement. The amount of the income deriving from a transaction is usually determined on the basis of an agreement between the parties involved in the transaction. When there are uncertainties regarding the determination of the amount or the related costs, these uncertainties could affect the determination of the time of the income recognition.

Income recognition requires that the income can be measured and that its final collection can be expected at the time of sale or provision of services. The real expectation of the final income collection ensures that payment by itself.

Where there is not possible to estimate the payment with certainty at the time of sale or provision of services, the income recognition is delayed. In such cases it is appropriate to recognise the income only when money is received. If there is no uncertainty when it comes to the final collection, the income is recognised at the time of the sale even when cash payments are made in instalments.

Incomes in the balance sheet represents assets, which means money or receivables for sold goods that have not yet been paid by customers, or in case of reduced liability, which means that we have reduced our debts. We divide them into business, financial and other revenues.

Business income is obtained during the regular company's business, i.e. by selling finished goods, by providing services, renting land, business premises, etc. Business income is revenue from sales or other income related to the sale of business effects. The disclosure of operating revenues on the other hand results in a reduction in inventories of goods, which further implies operating expenses. In short, we can say that operating income is the result of a product of the quantity of goods sold at a given price price.

Financial income is obtained through positive exchange rate differences and interest rates for lending financial resources to a legal or natural person. Financial revenues arise as a result of investing, such as investments in loans, shares or shares of a company.

Other revenues are those that can not be classified in the above two categories. These can be subsidies, grants, damages, income of penalties and a few others that are not directly related to business effects.

## **E. Expenses**

Expenses are decreases in economic benefit during the accounting period in the form of a decrease in asset or an increase in liability that result in decrease in equity, other than distribution to owners.

Recognition and measurement of expenditures depends on the concept of capital and its preservation used by an entrepreneur when compiling and presenting financial statements.

Expenses are recognized in the income statement when the reduction of future economic benefits results from a decrease in assets or an increase in liabilities and can be reliably

measured. This means that the recognition of expenses occurs at the same time as the recognition of an increase in liabilities or decrease in assets.

The main types of expenses are business, financial and other expenses.

Business expenses are the result of the company's core business and their scope depends on the volume and type of business. This includes the costs of production incurred due to the effects, the purchase of merchandise goods, administrative expenses and other expenditures needed for basic business processes; purchase and sale expenses (if specifically accounted for), and subsequent adjustments to costs that are accounted for as operating expenses.

Operating expenses are those that are recognized when the costs are no longer retained in inventories or when they are sold. They can also occur independently of sales, i.e., they include those costs that are not included in inventories, but are direct costs.

Financial expenses are the result of obtaining, using and reimbursing financial resources. Financial expenses include: negative interest rates, negative exchange rate differences, a decrease in the value of long-term and short-term financial investments and the coverage of the negative balance of revaluation reserves.

Financial expenses are expenses for financing and investments. We can divide them into operation that is related to the creation of business effects and operation which is intended solely to generate financial revenues.

Other expenses, or sometimes "extraordinary expenses" are all other costs that reduce the profit or loss and can not be classified in the other two categories. These are expenses from depreciation of investment property, expense due to impairment of investment property, fines, damages, etc. Expenses or expenses that are deducted from the tax must be considered for costs and expenses. In this respect, an accounting officer must be consulted in advance, in particular for large amounts. The rule is that only those costs or expenses that are solely related to a company's operations or the creation of an advantage for the company are recognized. As an example, it can be stated that the tax deduction costs are travel costs of an entrepreneur or an employee who can accurately prove the benefits and future income of the company. The principle of matching revenue costs is always the same, since we can not only have costs without revenue. This may take a short time, e.g. at the time of establishing a new company, while later the company must use what is reflected in revenue and, of course, in the positive result at the end of the year, from which we add something to the state budget.

## **F. Business result**

Business result represents the success of an enterprise expressed by monetary scales. Comparison between income and expenses reveals the financial result. When the income is higher than the expenses, the financial result is positive (gain). Loss represents a negative financial result when the expenses are higher than the income.

According to accounting regulations, a company establishes a net gain in the amount of the difference between the established profit and the profit tax. In the case that the established profit before tax is not sufficient for taxes and contributions, a net loss is established in the amount of difference between the amount of tax and the established profit. If before taxation a loss is

recognised, before the taxation the amount of the loss is increased for the amount of profit tax, and a net loss is established.

After determining the business results and based on a written decision of the owner or management, the profit is distributed, and the loss compensated. In the case of a loss in business, the loss is met from reserves, retained earnings from previous years, etc., in order to enable further business operations. When it is not possible to cover the loss, a bankruptcy proceeding is initiated, followed by the liquidation of the company.

If, while determining the business results, it is clear that the company has been profitable, the profit is distributed according to the interests, priorities and plans of the owner.

It is also important to differentiate between revenue and inflows as well as between expenditure and outflows. Revenues and expenses are dealt with in cash flows, while inflows and outflows are part of cash flows. We know companies that have profits, but money is nowhere to be found. The value of an issued tax-free invoice represents the income which will not be used as the inflow of money until the invoice is paid. On the other hand, a received invoice represents an expense, but the outflow of money will only start when the invoice is settled. For example, depreciation is an expense that is not an outflow of money, which means that it affects the operating result rather than the cash flow. When we settle the annuity of a loan, this is an outflow of money, which is not an expense and does not affect the business results.

You should briefly summarize what the company must do at the end of the year. Before making a balance sheet, it is good to make an inventory to reconcile funds, and then determine the profit or loss as the difference between revenue and expenditure. We also have a cash flow statement that is not mandatory for small businesses and a statement of changes in equity, which is also not mandatory.

Simple formula of profit or loss: all revenues are deducted from all expenses. If the revenue is greater than the expenses the company's balance sheet shows gross profit at the end of the year, but if there are more expenses, it shows operating loss. At the end of an accounting period or a business year, the company prepares an annual report which must be a credible display of the results of all events that occurred during the year. The company must also make an inventory of assets once a year and reconcile the situation with business books.

### **3.4.2. Important / exceptions**

In the event of a loss, the entity must first take care of its eventual coverage from previous statutory or other reserves, or from retained earnings for previous years, and from capital reserves. If this is not possible, the company will transfer the loss to the following year and arrange to cover it in subsequent periods of operation. In the case of a positive profit, the company must first calculate the tax on profit and add any deferred tax assets and thus redistribute the net profit to the settlement of the loss (if there was any in previous years) and to the legal reserves, the purchase of own shares, the share of the shareholder in the net profit, and thus, only the residue can be transferred to the following year as unallocated profits.

### **3.4.3. Tips from professionals**

To read and understand the financial statements, plans, projects, etc., it is necessary to understand the concepts of economic categories and to be able to identify their features.

### **3.5. USING RELEVANT APPLICATIONS IN PRACTICE - POSTING OF THE MOST COMMON EVENTS IN A COMPANY / PRIVATE ENTITY**



In this part unit, the relevant practices in the posting of business events are explained by using practical examples. The practical examples provide a clear and easy understanding of the process of registering business changes in the company. In order to present the relevant practices in the posting of business changes, each posting contains an explanation that gives the reader an additional insight into the matter.

After reading this unit, you will be able to:

- read and present practical examples related to the posting of business changes.

#### **3.5.1. Overview / theoretical framework**

The Accounting Act prescribes the obligation to keep books according to the rule of double-entry bookkeeping. The proper posting of data must meet the following criteria (algebra.hr):

- it is based on an appropriate document.
- data entered is in the Slovenian language.
- data are entered in a continuous sequence without leaving a free space.
- no possibility to delete and change the original text and the amount.
- posting of data immediately upon the occurrence of a business event, depending on the time of arrival of a document for bookkeeping.
- respecting the principle of an unchangeable record.

We are continuing with examples based on the most important economic categories.

#### **Intangible assets**

An intangible asset is an identifiable non-monetary asset that normally does not exist physically. As a rule, it is an intangible long-term asset. Intangible assets with an individual value of not more than EUR 500 may be considered as costs in the period during which they are acquired.

Intangible fixed assets are only those intangible long-term assets that co-create business facilities and are not just items of long-term accruals (patents, licenses, trademarks, etc.).

For the recognition of an individual asset as an intangible asset, two conditions must be fulfilled, and for certain groups of intangible assets certain criteria are also prescribed.

According to Slovenian Accounting Standard no. 2 intangible assets are:

- investments in acquired long-term industrial property rights and other rights (property rights),
- long-term deferred development costs,
- capitalized costs of investments in foreign tangible fixed assets and
- investments in the name of the acquiree.

If we accept one of many definitions of intangible assets that defines it as being non-physical (intangible) and identifiable, it cannot be expected that a person who has not dealt in-depth with the analysis or is not professionally involved in financial-accounting activities can understand what can and should be deemed as an intangible asset.

From the accounting aspect, intangible assets are defined by the Slovenian Accounting Standard no. 2 and International Accounting Standard no. 38.

These standards require the ability to identify assets and a control over them. The identification of an intangible asset implies its authenticity which results from the possibility of separate sales, transfer, licensing, leasing or exchange. Also, the control over the means implies the possibility of realizing of the future economic benefit that needs to flow from the use of the means.

The most common examples of assets classified as intangible, according to the abovementioned standards, are computer software, publishing rights, development expenditures, brands, know-how, goodwill, patents, licenses, concessions, trademarks and similar rights, franchises, licenses, marketing rights, design, etc.

Intangible assets can be internally developed within the company, but according to the provisions of the abovementioned standards, the research phase and the development phase need to be distinguished. The expenses incurred in the research phase cannot be capitalized (attributed to the value of the intangible asset) but should be treated as costs incurred in a specific period. In the development phase, in order to attribute the costs incurred to the assets, the technical feasibility of the intangible asset to be completed must be proven, so that it is available for use or sale, as well as the intent of the entity to complete the intangible asset, the availability of appropriate sources for the completion of the development phase, the possibility of the use or sale of assets, the possibility of reliable measurement of the costs incurred which are attributed to the intangible assets during the development.

The depreciation of intangible assets is mainly:

- depreciation only reduces the carrying amount of an intangible asset with a finite useful life;
- depreciation begins when an intangible asset with a useful life is available for use;
- depreciable amount of an intangible asset with a finite useful life shall be allocated to the best estimated useful life of the asset. An intangible asset with a finite useful life is amortized over the useful life;
- depreciation method used reflects the pattern of the emergence of economic benefits from an intangible asset with a finite useful life. If the sample can not be reliably determined, the straight-line depreciation method is used;
- depreciation charged for each accounting period is recognized as the expense or operating expense of that period.

The age and method of depreciation should be reviewed at least at the end of each financial year. If the expected useful life of an intangible asset with a finite useful life differs significantly from the previous estimate, the amortization period should be modified accordingly. If the expected pattern of the emergence of economic benefits from the asset changes significantly, the depreciation method should be modified accordingly. Such changes should be seen as changes in accounting estimates. They affect the calculated amortization for the accounting period in question and for the subsequent accounting periods.

The residual value of an intangible asset should be checked at least at the end of each financial year. The residual value of an intangible asset with a finite useful life does not exist unless the following exists:

- the obligation of the other party to purchase such an asset at the end of its useful life, or
- the asset is an active market, and the residual value can be determined taking into account such a market, whereby it is likely that such a market will exist at the end of the useful life of the asset.

Goodwill and an intangible asset with an indefinite useful life are not depreciated but are revalued due to impairment.

Here you can see an example of movements of intangible assets, which are presented in accounting for T-accounts. The example shows the purchase of the software license and the value of the VAT account at a general rate. The correct net value and the value of VAT (22%) must be calculated before accounting.

Example:

<i>Computer software 001</i>	
<i>EUR 1,640.00</i>	
<i>A claim for input VAT 22% 160</i>	
<i>EUR 360.00</i>	
<i>Obligation to the supplier EUR 220</i>	
	<i>EUR 2,000.00</i>

The value of the purchased license per account amounts to EUR 2,000, which is shown as an increase in liabilities to the supplier on the passive side. The active side covers the purchase

price of the fixed asset in the amount of EUR 1.640 and the liability for VAT at the general rate amounts to EUR 360.

## **Tangible Assets**

It is important that a company has defined in the accounting rules what is classified as fixed assets, what is included in small tools and what is the cost of the material. It depends on whether the company can charge depreciation, which is a tax-recognized expense of the company, and whether the individual cost in the current business year is considered a tax-recognized expense. These questions ultimately affect the net profit of the company.

Fixed assets comprise tangible and intangible fixed assets and long-term financial investments. Tangible fixed assets are assets held or financial leasing that will be used for several years. Tangible fixed assets include, for example, land, buildings, equipment, multi-annual plantations, stock of investment material, intended for incorporation into other items of fixed assets, etc.

Tangible fixed assets are defined by SAS 1 and IAS 16.

A tangible fixed asset the individual purchase value of which, according to the supplier's invoice, does not exceed EUR 500 may be shown collectively as a small tool or as a fixed asset. However, care must be taken not to post a specific asset (e.g. a computer) both as part of the assets and the inventory. In the event that doubts arise when purchasing a fixed asset, we define the asset in accordance with its content. If the fixed asset is used to carry out our core business activity and will be used for more than one year, it should be defined as a fixed asset (e.g. a computer with a value of EUR 400). It is important to depreciate fixed assets.

Small inventory or tools the individual purchase value of which, according to the supplier's invoice, does not exceed the value of EUR 100, may be classified as small items of inventory or as material. The same rules as for fixed assets also apply to the classification of fine inventory and material.

These are assets held or financial leases used in the creation of products and revenues and are used for more than one accounting period (business year). When we spend these funds, we are talking about the emergence of a cost that we call depreciation. This is therefore the cost that shows us the wear and tear of the fixed asset and its real value. We must know that the fundamental rule of books is to show the real state of the enterprise and its value.

Some assets are not depreciated. These are lands or buildings under the monument protection, which can not be limited in time. The depreciation rate in percent is determined by dividing the number 100 by the number of years of use of the fixed asset. The Accounting Policy determines the orientation, according to which depreciation rate, the amortization will be calculated for a particular group of fixed assets.

Depreciation means an expense which is not an outflow of money, but accumulation for the acquisition of a new fixed asset when it is exhausted. Subsequent investments in tangible fixed assets that are not the nature of maintenance work always increase the value of the property and reduce the value adjustment, and are not direct expenses of that year neither do they reduce the direct tax base. Investment property, which is also depreciated, is intended solely for leasing.

Depreciation is defined in the Slovene Accounting Standard (SRS) as an amount that leaves the depreciable asset in the individual accounting period and represents the current cost.

Depreciable assets are those that are used in a period longer than the financial year, have a limited useful life, and are intended for use in the production or supply of goods and services, are lent to others for consideration or are held for other reasons.

The Corporate Income Tax Act (ZDDPO-2) recognizes the depreciation of tangible fixed assets, intangible assets and investment property as an expense. Only the straight-line depreciation method and the following annual maximum depreciation rates are permitted:

- for construction works, including investment property: 3%
- for parts of construction works, including parts of investment property: 6%
- for equipment, vehicles and machinery: 20%
- for parts of equipment and equipment for research activities: 33.3%
- for computer, hardware and software, equipment: 50%
- for multi-annual plantations: 10%
- for rearing herd: 20%
- for other investments: 10%.

Following is a business example of movements of tangible assets which are presented in accounting for T-accounts.

The simple principles of accounting on T-accounts are always the same: an obligation to the supplier, which represents the gross value of the account as a passive side and an active site that contains the VAT input and assets.

Example:

*Production plant 023*

1) EUR 410,000.00	
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*Claim for input tax 22% 160*

1) EUR 90,000.00	
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*Obligation to supplier 220*

2) EUR 500,000.00	1) EUR 500,000.00
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*Obligation to banks for the loan approved 272/972*

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	2) EUR 500,000.00
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The company seeks a loan from the bank for the purchase of funds in the amount of EUR 500,000. The long-term or short-term financial liability to the bank is increased in the balance sheet. Funds are directly paid to the supplier, so the simultaneous obligation to the supplier of EUR 500,000 is established and also closed. The net value of EUR 410,000 without VAT is shown as an increase in the asset side of the assets and the setting-up of a receivable for the company's debt of EUR 90,000 at the general rate.

### Short-term assets

Short-term assets are usually transformed over a period of time that is shorter than one year. They consist of:

- assets for sale,
- supplies (material, packaging, merchandise, finished products),
- short-term operating receivables (to customers, receivables for input VAT),
- short-term financial investments (loans granted),
- cash (cash on a bank account, cash stock),
- short-term deferred costs (short-term deferred costs - example: insurance paid once a year, and at the expense of the monthly premium, since the entire premium is paid in advance and it does not represent the cost of the month in which we paid it).



### Money

Doing business is possible under the condition that an entrepreneur opens a business account at one or more banks. It is a bank account through which he will be making all the payments. This account is also called a "transaction account".

Let's look at a simple example of moving and accounting of investment money in a company.

*bank transaction accounts at banks 100*

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EUR 200,000.00

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*Share capital 901*

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EUR 200,000.00

The owner has paid to the bank account the share capital of EUR 200,000.00. The increase in assets (money) is recorded on the debit side, and the capital increase is recorded on the demand side because the recording is in balance and the assets and liabilities have been increased.

### **Receivables/Claims**

An important accounting category is receivables, meaning that someone owes money, services, or products. There are receivables from customers, suppliers, employees, financiers, participants in profit, the state. They may be short-term or long-term.

SAS 5 is used in the bookkeeping, accounting and disclosing of short-term and long-term operating receivables. Handles:

- classification of receivables;
- recognition and elimination of receivables;
- initial accounting measurement of receivables;
- revaluation of receivables;
- disclosure of receivables.

It does not process active (capitalized) accruals. It is mainly related to Slovene Accounting Standard (SRS) 15, 17 and 20.

Claims on the property and other relationships are designed to require a person to pay a debt from a particular person, or, in the case of advances given, the supply of certain objects or the performance of a service. In any case, except in the case of advances granted, the contractual right of one party to receive the money needs to be matched with the corresponding obligation of the other party to fulfill the obligation.

Financial assets are not considered as operating receivables, but only as those related to the financial revenues deriving from them. Financial assets other than operating receivables are dealt with in SAS 3 - Investments. Deferred costs and accrued revenues are classified as operating receivables only in the broad sense and are not subject to this standard.



### **Classification of receivables according to their type**

Short-term receivables can be divided into: receivables from customers, employees' claims, government receivables (e.g. excess payment of VAT) and other short-term receivables.

Here is a basic business example recorded in a T-account, which is showing the receivables from the buyer for the sale of goods from the inventory.

The company sells goods in stock in the net amount of EUR 100,000.00, VAT 22% is also charged.

<i>Receivables 120</i>	
<i>EUR 122,000.00</i>	
<i>VAT obligations 22% 260</i>	
	EUR 22,000.00

### *Revenues from sales 760*

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	EUR 100,000.00
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The case simply illustrates the net value of goods sold (EUR 100,000), which is shown in the balance sheet as an increase in sales revenue, together with a VAT obligation at the general rate (EUR 22,000). On the other hand, a receivable from a buyer of EUR 122,000 is established.

### **Inventory**

Inventories of products, services and merchandise are capitalized by different methods that depend on the direction of the company and on the nature of production. Slovenian Accounting Standards is familiar with three methods:

- The cost of valuation with production costs, which is used by most companies in the case of steady production and even sales, and in the value of inventories, charges the following costs: direct costs of material, labour and services and depreciation, while adding an adequate part of general production costs.
- The method of valuation with a narrowed price is a method that captures more value in the inventory than the first one and it is used when the production is uniform and the sale fluctuates in periods. In addition to the costs of the above method, we also include: general procurement, administration and sales costs.
- The variable cost valuation method is applicable to those companies where the volume of production fluctuates, while sales are more or less constant and include the following categories of costs: direct costs of material, labour, services and depreciation and a variable part of general production costs.

Services can also be accounted for in stock by the costs incurred upon their "production". The merchandise is placed in stock by purchase or at the selling price, but also at the price with VAT included. Of course, the difference in price and VAT should then be kept as an expenditure in certain accounts.

The next category is the stock of raw materials, materials and small inventory and packaging. These components are purchased in stock and used through production to produce the product, which is then sold. Each company decides by which method the material it holds in stock will be used. A specific price can be changed for each delivery. Whether a company chooses the FIFO method, the weighted average price method or the floating average price, should be decided according to the type of production.

SAS 4 is entirely devoted to the rules governing the management, valuation and inventories of supplies of goods, materials, products, semi-products and other assets.

Most of the stocks are held by companies with activities such as production, catering, trade, service, etc. The inventory includes quantities in the warehouse, finishing, processing, as well as those held by companies in, e.g., retail store.

Companies are required to provide a transparent inventory record with material bookkeeping, trade records, etc.

A stock of material is also considered a small inventory with a useful life of up to 1 year or more if its individual purchase price does not exceed € 500.

Inventories of materials and goods are valued at the purchase price, consisting of the purchase price (including discounts), import and other non-refundable charges and direct purchase costs (transport). In order to reduce volumes, mainly due to fiscal legislation, smaller companies generally use the FIFO method, while small inventory is usually transferred to costs immediately within the same (tax) year.

The value of inventories used (material) is treated as a cost, while the value of inventories sold (goods) is treated as operating expense - both categories decrease the company's profit or loss (decrease in profit).

## **Obligations**

The obligation is the present obligation of the entrepreneur, resulting from past events for whose settlement the outflow of resources is expected.

They are classified as short-term and long-term. In order for the obligation to be classified as short-term, it must meet the following criteria:

- it is expected to be settled in the regular business cycle,
- it is due to be settled within twelve months after the balance sheet date,
- it is primarily held for trading,
- the entrepreneur has no unconditional right to postpone the obligation settlement for at least twelve months after the balance sheet date.

When obligations do not meet the above criteria, we classify them as long-term obligations.

### **The example of recording of long-term obligations:**

T-accounts show simple example how to record long-term liabilities for borrowing cash from another company.

The entrepreneur "ABC" has received a loan from "XY" company in the amount of EUR 250,000, for a maturity of 5 years; the funds have been credited to the giro account.



*Long-term obligations for loans 972*

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	EUR 250,000.00
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*Transaction on a bank account 110*

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EUR 250,000.00 eur	
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This simple illustration of posting shows an increase in long-term liabilities to the bank for loan on the liabilities side, as well as an increase in cash on the asset side of the balance sheet.

## **Capital**

Capital represents a financial resource or source that is available for productive and profitable use. Equity may be contributed by the owner of the enterprise as an own contribution (equity) or may be obtained in the form of a loan (debt capital). In both cases, capital is used for the purpose of generating assets, which we call investment. Capital is not only an initial investment but can be generated and increased through successful business and management. The well-known writer and economist Adam Smith, in his book "Wealth of Nations", defined capital as part of a human asset that he expects to provide him with income.

As already mentioned, equity may be equity or debt, depending on who has contributed funds to the company and under what conditions. At the same time, capital can also be divided according to the legal form of the company, namely:

- share capital,
- capital with shares,
- capital role.

Capital does not mean exclusively money, but can also represent other material assets.

From an accounting point of view, capital represents an obligation to the owner. Slovenian Accounting Standard 8 defines the company's capital as its obligation to the owners who are due for payment if the company ceases to operate. It is defined by the amounts invested by the owners and the amounts that have arisen in the course of business (profits) and belong to the owners. It is reduced by loss in operations, repurchased treasury shares and own business shares and withdrawals (payments).

The amount of capital is a sign of the financial stability and power of an individual, an organization or a nation. More capital also means greater stability and strength and the ability to generate profits.

SAS 8 applies to bookkeeping, accounting and disclosure of capital as a liability to owners. Handles:

- the classification of capital;
- recognition and elimination of capital gains;
- initial accounting measurement of capital;
- capital revaluation;
- disclosure of capital.

It is primarily related to Slovene Accounting Standards (SRS) from 1 to 7, from 9 to 11 and 20.



### **Payout of profit from a limited liability company**

The determination of distributable profit and its allocation constitute one of the fundamental rights of shareholders acquired on the basis of the initial contribution to the company. In addition to shareholders, third parties may also be involved in the distribution of profits. The contribution details the process of deciding on the realized profit of the company, the tax consequences for the company that pays the profit and the method of taxing the recipient.

Regarding the distribution of profits between members of a limited liability company, the Companies Act (ZGD-1) states:

- shareholders have the right to decide on the use of accumulated profit (decision at the general meeting and adoption of the relevant resolution);
- shareholders have a right to a share in the accumulated profit, as established in the annual balance sheet, unless otherwise provided by the social contract;
- profits are generally divided in proportion to the amount of business interests, unless otherwise provided by the social contract.

### **An example of recording in the general ledger:**

The profit in the financial year has been determined by the profit and loss account in the amount of EUR 40,000.00 and has been recorded in the account 932 - profit in the financial year - and according to the Shareholders' Meeting decision, the profit is distributed as follows:

- Member X EUR 10,000
- Member Y EUR 15,000
- Member Z EUR 15,000

Company may retain a positive business result (profit) in the balance sheet and transfer it to the subsequent accounting period. The owners of the company, by means of a resolution on the distribution of profits, determine the method and the amount of each share.

The example shows that the profit was distributed proportionally, according to the amount of the business share.

*932 Financial year profit*

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EUR 40,000.00

*934 retained earnings-anaytics member X*

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EUR 10,000.00

*934 retained earnings-analytics member Y*

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EUR 15,000.00

*934 retained earnings-analytics member Z*

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EUR 15,000.00

**3.5.2. Important / exceptions:**

Good accounting practices (PSR) are a complement to the Slovenian Accounting Standards and deal with the rules and methods of operations in individual accounting areas, such as:

- bookkeeping documents and books (bookkeeping),
- accounting calculation,
- accounting supervision,
- accounting analysis,
- accounting information,
- consolidation.

Therefore, the PSR is the recommended professional basis upon which internal reporting in the organization should be based, and in particular, the regulation of the field of bookkeeping documents.

### **3.5.3. Tips from professionals**

Every bookkeeper must continuously improve his skills and knowledge, stick to the legal regulations and the ethics code, and so should FDI advisors (on a basic level). Advise your candidates for FDI advisors to subscribe to relevant publications so that he is always informed on changes to legislation.

On the other hand, the business organization management is interested in the financial position of the company and its profitability. For this reason, the management aims to get the financial statements as often and as quickly as possible so it can take actions to repair areas with poor results. Investors will be particularly interested in the annual financial statements because these are the reports used by decision-makers outside the company. For example, if creditors see the balance at the end of the year as "strong", they will be more willing to give credit to the company than if the financial position of the company is weak.

### 3.6. ADDITIONAL READING

In the links below, you can find all information about the accounting system of the Republic of Slovenia, as well as examples of calculating tax obligations.

- <http://www.zvezarfr.si/>

- <https://edavki.durs.si/EdavkiPortal/OpenPortal/CommonPages/Opdynp/PageA.aspx>

- <http://eugo.gov.si/en/>

You can read more about basic accounting theory, concepts, principles and branches in the following materials:

American Accounting Association (1977). *A statement of basic accounting theory*. Sarasota: Evanston, III.

Bragg S. (2017). Basic accounting concepts. Available on:

<https://www.accountingtools.com/articles/basic-accounting-concepts.html> (2/22/2018).

Edwards J.D., Hermanson R. H., Buxton B. (2011). *Accounting Principles: A Business Perspective, Financial Accounting (Chapters 1 – 8): An Open College Textbook*. Available on:

<https://www.saylor.org/site/wp-content/uploads/2011/11/BUS103-TEXTBOOK.pdf>

(2/20/2018).

Fontinelle A. (2018). *Introduction To Accounting Information Systems*. Available on:

<https://www.investopedia.com/articles/professionaleducation/11/accounting-information-systems.asp#ixzz57Geo9dKM> (2/20/2018).

Wohlner R.. *Accounting Basics: Branches of Accounting*. Available on:

<https://www.investopedia.com/university/accounting/accounting2.asp#ixzz57GMIIFpM>

(2/20/2018).

Xerocon SF 2016 Interviews and Highlights. (2016, August 17). Available on:

<https://www.accountingweb.com/hub/xerocon-sf-2016-interviews-and-highlights> (2/20/2018).

More about the economic categories can be found in the

- Accounting Act

<http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO1597>

This Act regulates the keeping of books and the compilation of annual reports for the Budget and the spending agencies of the Budget, as well as for those legal persons under public law and legal persons under private law (hereinafter: legal persons) which do not keep their books of account pursuant to the Companies Act (Official Gazette of the Republic of Slovenia [Uradni list RS], Nos. 30/93, 29/94, 82/94, 20/98, 84/98 and 6/99), the Services of General Economic Interest Act (Official Gazette of the Republic of Slovenia [Uradni list RS], Nos. 30/93, 29/94, 82/94, 20/98 and 6/99) and the Associations Act (Official Gazette of the Republic of Slovenia [Uradni list RS], Nos. 60/95 and 49/98 - Decision of the Constitutional Court).

This Act also regulates the auditing of the annual financial statements of persons providing public services.

### 3.7. QUIZ AND EXERCISE

#### Quiz:

1. In the following simple cases calculate the input and output VAT. The first example shows the purchase of material and the amount of the VAT receivable, while the other includes the sale and the obligation to pay VAT:
  - i) We buy EUR 5,000 worth of material, taxed with a general VAT rate. What is the value of the invoice with VAT?
    - a)  $5,000 \times 22\% = 1100$  input VAT (general VAT rate 22%)  
 $5,000 + 1100 = 6,100$  value of the invoice for the purchased material
    - b)  $5,000 \times 9.5\% = 475$  VAT (general VAT rate 9.5%)  
 $5,000 + 475 = 5,475$  value of the invoice for the purchased material
    - c)  $5,000 \times 13\% = 650$  input VAT (general VAT rate 13%)  
 $5,000 + 650 = 5,650$  value of the invoice for the purchased material
    - d)  $5,000 \times 8.5\% = 425$  input VAT (general VAT rate 8.5%)  
 $5,000 + 425 = 5,425$  value of the invoice for the purchased material
  - ii) From the material purchased, we produce and sell 100 products (clothing) at EUR 70, and VAT is charged again at the general rate. What is the total value of the invoice with VAT?
    - a)  $100 \times 70 = 7,000$  basis for VAT calculation  
 $7000 \times 9.5\% = 665$  output VAT (general VAT rate 9.5%)  
Total value of the invoice = 7,665 EUR.
    - b)  $100 \times 70 = 7,000$  basis for VAT calculation  
 $7,000 \times 8.5\% = 595$  output VAT (general VAT rate 8.5%)  
Total value of the invoice = 7,595 EUR.
    - c)  $100 \times 70 = 7,000$  basis for VAT calculation  
 $7,000 \times 22\% = 1,540$  output VAT (general VAT rate 22%)  
Total value of the invoice = 8,540 EUR
    - d)  $100 \times 70 = 7,000$  basis for VAT calculation  
 $7,000 \times 13\% = 910$  output VAT (general VAT rate 13%)  
Total value of the invoice = 7,910 EUR.
  - iii) Calculate the obligation for VAT
    - a) The company has to pay EUR 520 of VAT liabilities.
    - b) The company has to pay EUR 540 of VAT liabilities.
    - c) The company has to pay EUR 340 of VAT liabilities.
    - d) The company has to pay EUR 440 of VAT liabilities.
2. What are applicable VAT rates in the Republic of Slovenia?
  - a) 8.5%, 22%
  - b) 9.5%, 22%
  - c) 9.5%, 13%, 22%
  - d) 5%, 12%, 25%

3. Which of the following is not a key objective of Accounting?
- Recording
  - Decision-making
  - Planning
  - Presenting
4. What is considered one of the main branches of Accounting?
- Financial Accounting
  - Accounting for FDI
  - Business Accounting
  - Basic Accounting
5. Which of the following is not the main limitation of Accounting?
- Professional judgement
  - Verifiability
  - Fraud & Errors
  - Financial transactions
6. Which of the following is not a basic classification of positions in the account plan:
- Assets
  - Capital and liabilities
  - Money
  - Income
7. Companies that do not exceed the boundary indicators in two of the following three conditions: the average number of employees in the financial year does not exceed 50, net sales revenues do not exceed EUR 8,000,000, the value of assets does not exceed EUR 4,000,000, are considered to be:
- a micro enterprise
  - a small enterprise
  - a medium-sized enterprise
  - a large enterprise
8. What are accounting standards?
- The principles and rules of recognition, measurement and classification of business events and the preparation and presentation of statistical statements.
  - The principles and rules of recognition, measurement and classification of business events and the preparation and presentation of financial statements.
  - The principles and rules of recognition, measurement and classification of business events and the preparation and presentation of public notes.
  - The principles and rules of recognition, measurement and classification of business events and the preparation and presentation of the tax declaration.

9. What is an asset?

- a) An asset is a resource or property having a monetary/economic value, owned by an individual or an entity, which is capable of producing expense of a future economic event.
- b) An asset is a resource or property having a monetary/economic value, owned by the state, which is capable of producing some future economic benefit for entrepreneurs.
- c) An asset is a resource or property having a monetary/economic value, owned by an individual or an entity, which is capable of producing some future economic benefit.
- d) An asset is a resource which is the result of future business events, owned by an individual or an entity, and is capable of producing economic benefit for entrepreneurs.

10. Which of the following answers is correct? During usage fixed asset is gradually wearing off and depreciated, .....

- a) but does not change its form
- b) but progressively turns into income
- c) but makes basic part of supplies
- d) but in time increases companies' value

11. Current assets include:

- a) money, short-term expenses and supplies
- b) investment in active and non-active securities
- c) long-term asset for which time usage is expired
- d) money, investments in active securities and supplies

12. Which of the following answers is not correct? Income is divided in:

- a) business income
- b) non business income
- c) financial income
- d) profit

13. Financial incomes are made through:

- a) recapitalization
- b) positive exchange rate differences and interest rates
- c) financial supplies relief
- d) amortization

14. What is an expense?

- a) Decrease in economic benefit during the accounting period in the form of a decrease in asset or an increase in liability that result in increase in equity.
- b) Increase in economic benefit during the accounting period in the form of a decrease in asset or an increase in liability that result in decrease in equity.
- c) Decrease in economic benefit during the accounting period in the form of a decrease in income or an increase in liability that result in decrease in equity.
- d) Decrease in economic benefit during the accounting period in the form of a decrease in asset or an increase in liability that result in decrease in equity.

15. According to accounting regulations net gain is established .... ?
- a) in the amount of difference between the established profit and profit tax
  - b) in the amount of difference between gross income and capital
  - c) in the amount of difference between income and expenses
  - d) in the amount of difference between established profit and profit tax paid in advance

16. How is the loss for the financial year reimbursed?
- a) it is not reimbursed
  - b) from reserves or retained earnings from previous years
  - c) from a long-term loan
  - d) from future financial income

17. According to the chart of accounts and the basic keys, current assets are divided into the following classes:
- a) 1, 3, 6
  - b) 0, 4, 5
  - c) 1, 3, 7
  - d) 1, 4, 7

18. Which of the items below is regarded as short-term financial assets?
- a) Reserves for own shares
  - b) Retained earnings
  - c) Investments in securities
  - d) Prepayments for supplies

### Exercises:

#### Exercise 1:

In the Law on Value Added Tax, please find what kind of objects do lower VAT rates apply for and which are the tax exemption?

Write the answer:

#### Exercise 2:

Which are the core objectives of the accountancy?

Write the answer:

Exercise 3:

What does a complete set of financial statements, based also on Slovenian accounting standards, comprises of?

Write the answer:

Exercise 4:

A company has a loan for 6 years. What are the liabilities regarding the loan?

- a) Long-term liabilities
- b) Short-term liabilities

Exercise 5:

Which of the following belongs to active and which to passive assets?

- i) Cash in the register
  - a) Active
  - b) Pasive
  
- ii) Income of the financial year
  - a) Active
  - b) Pasive
  
- iii) Loan
  - a) Active
  - b) Pasive
  
- iv) Suppliers' receivables
  - a) Active
  - b) Pasive
  
- v) Goodwill
  - a) Active
  - b) Pasive
  
- vi) Concession
  - a) Active

b) Pasive

vii) Company equity

a) Active

b) Pasive

Exercise 6:

Which of the following belongs to long-term and which to short-term asset?

i) Business establishment

a) Long-term asset

b) Short-term asset

ii) Computer

a) Long-term asset

b) Short-term asset

iii) Ruler

a) Long-term asset

b) Short-term asset

iv) Printing paper

a) Long-term asset

b) Short-term asset

Exercise 7:

On the Internet, find the chart of accounts that is applied in the Republic of Slovenia. According to the chart of accounts, specify the accounts for the following transactions: Investments in Internet sites, land, equipment, investments in government bonds, escrow account, buyers of services from the EU.

Write the answer:

## Module 4 – POSSIBILITIES FOR FUNDRAISING

This module is designed to introduce you to the Possibilities for Fundraising on the National and EU Level, which FDI advisors should know about.

After the end of the module, you will:

- Understand basic fundraising concepts and terminology,
- Understand exploring strategies for diversifying foreign investors' funding,
- Be able to identify relevant state and EU funds,
  - Understand the basic concepts for obtaining a business loan from a bank.

### Glossary

**Accountability** – in the context of funding/fundraising, a beneficiary should inform donors of the use of their money, with financial statements.

**Allocations committee** – a group of people in a company, trust or any other donor body who meet to decide on donations.

**Annual giving** - either an amount is given annually by a donor or a fundraising drive to bring donations in once a year.

**Bridging loan** – money borrowed to enable or kick-start a project or fundraising campaign; such money needs to be repaid, usually from funds yet to be raised.

**Campaign** – a planned effort to mobilise a specified amount of money, resources, volunteers or donations-in-kind within a certain period.

**Capital campaign** – a one-off intensive fundraising drive for a specific item, usually a vehicle or building.

**Cause-related marketing** – a marketing exercise in which a company uses the name and logo of a donor to assist in the sale of its goods or services and provides the donor with a financial reward.

**Development officer** – or donor marketer, grants officer; alternative terms for “fundraiser.”

**Direct mail fundraising** – sending mass mailings to individuals on selected mailing lists, requesting donations.

**Donor** – somebody who gives money or donations-in-kind. There are various types of donors: local, foreign, individuals, foundations, trusts, companies, governments and government agencies.

**Donor pyramid** – a triangular sketch depicting sources of funding with the upper point depicting large donors who do, or could, make sizable grants. When the pyramid widens downwards, those tiers show donors likely to give smaller amounts and less often.

**Feasibility study** – an in-depth survey to explore the potential success of a new project or a fundraising campaign.

**Funding proposal** – a document developed for a potential donor, identifying a need as well as the future sustainability of the project.

**Fundraising calendar** – a time frame outlining the various functions of a fundraising campaign with dates by which each step should begin and end.

**Fundraising cycle** – the functions of fundraising from planning to receiving donations, often covering a twelve-month period.

**Impact assessment** - collect and analyze evidence that measures the longer-term effects a project/ an organization's work on its immediate target groups, a community or on society at large.

**Mission statement** – a document/statement (preferably short) that summarizes the reason for the existence and the primary objectives of an organization/business.

**Seed funding or seed money** – an early donation to begin a new project.

**Sponsorship** – sponsor/funding given by the marketing department of a company in return for advertising/brand promotion.

**Work plan** – a document, typically internal to a project, defining responsibilities, time frames and courses of action on how to go about achieving project results and objectives.

## 4.1. NATIONAL FUNDS

It is extremely important that FDI advisors know the Funding Programmes and Schemes that are available (also) to the foreign investors.

### 4.1.1. Theoretical Framework

The National Grant Schemes are designed and approved at the national level and are funded solely by national funds. The aim of these projects and programmes is the implementation of various state policies and priorities, e.g. strengthening employment, promotion of tourism, etc. The implementation and management of these programmes are taking place exclusively in Slovenia, under the responsibility of the relevant ministries or public agencies.

The following are the most important:

1. [The Ministry of Agriculture, Forestry and Food](#) carries out tasks in the fields of agriculture, rural development, nutrition, plant protection, veterinary and zoo-technics, forestry, hunting, fisheries, safety and quality of feed and food or foodstuffs, except food supplements, foods for special nutrition or health food and / or foodstuffs in catering, institutional food establishments and food-for-work establishments.
2. The work at [the Ministry of Economic Development and Technology](#) is carried out in the following areas: entrepreneurship, technological development, internationalization, trade policy, tourism, internal market, regional development, wood industry, social entrepreneurship, commodity reserves.
3. Areas of work at [the Ministry of Education, Science and Sport](#) are the Pre-School and Basic Education, the Secondary, Higher Vocational and Adult Education, the Higher Education, Science and Sport.
4. [The Ministry of the Environment and Spatial Planning](#) is responsible for environmental protection and planning.
5. [The Ministry of Labour, Family, Social Affairs and Equal Opportunities](#) performs tasks in the following areas: labour relations and labour rights, labour market and employment, family, social affairs, disabled, war veterans and victims of war, equal opportunities; and cohesion policy.
6. [The Ministry of Health](#) is in charge of public health, prevention of risk behavior and addiction, food safety, the environment and health, reducing health inequalities, healthcare personnel, private healthcare services, medicinal products...
7. Main areas of work at [the Ministry of Finance](#) are general government finance, economic governance, government securities, taxes and customs and state aid monitoring.
8. [The Ministry of Interior affairs](#) among other offers services for foreigners who want to enter to the Republic of Slovenia, who want to live or work here. Ministry set up a [web portal](#) with a wide range of information needed by foreigners .  
Most of the parts of these programmes, funded only by national budget, are for the public agencies and organizations.

#### **4.1.2. Important / Exceptions and Expert's Advice**

[Chamber of Commerce and Industry of Slovenia](#) is a non-profit, non-governmental, independent business organization representing the interest of its members and is Slovenia's most influential business association.

It unites 24 branch associations representing all sectors of Slovenian Economy. As a member of the European Association of Chambers of Commerce and Industry, the International Chamber of Commerce, as well as other international associations and organisations, it is part of an extensive international network with innumerable contacts.

The Chamber organizes interesting workshops, international meetings, business summits and other events that can help a foreigner investor to broaden his business nationally and/or internationally.

FDI advisors should check the chamber's web pages regularly.

## 4.2. EU FUNDS

The EU has several different funding programmes that foreign investors may be able to apply for, depending on the nature of their business or project.

The EU makes funding available in different forms, including grants, loans and guarantees, subsidies, prizes and public contracts.

### 4.2.1. Theoretical Framework

The main EU funding programs are:

- European Regional Development Fund – funds for regional and urban development.
- European Social Fund – funds for social inclusion and good governance.
- Cohesion Fund – funds for economic convergence by less-developed regions.
- European Agricultural Fund for Rural Development – funds for rural development in the EU.
- European Maritime and Fisheries Fund – funds for coastal communities in diversifying their economies and projects that create new jobs and improve quality of life along European coasts.

These funding programs, together with the European Union Solidarity Fund which provides assistance in case of major natural disasters, and the Instrument for Pre-Accession which provides Assistance Support for EU candidate and potential candidate countries, comprises nearly 80% of the EU budget.

Funding is based on the operational programmes, agreed by European Commission and a member state and is managed by national and regional authorities.

### [European Regional Development Fund](#)

The Fund aims to strengthen economic and social cohesion in the European Union by correcting imbalances between its regions. It focuses its investments on several key priority areas, as follows:

- Innovation and research;
- Digital agenda;
- Support for small and medium-sized enterprises; and
- The low-carbon economy.

The priorities are detailly described in the [Operational programme for Implementation of EU Cohesion policy for the period 2014 – 2020](#) in Slovenia.

Example of a call:

Call title:	Incentives for launching innovative companies in 2018
Contracting Authority	Slovenian Enterprise Fund
Purpose of the call:	The purpose of the call is to develop supported companies and to successfully transfer the development ideas of entrepreneurial individuals and groups into market-based enterprises and create new innovative companies with growth potential, with the emphasis on the development and commercialization of products, processes and services.
Subject of the call	The subject of the call is the co-financing (subsidies) of the launch of innovative companies, the development of the minimum viable product and the launch of market products on the market.
Eligible applicants:	Micro, small and medium-sized enterprises with a registered office in the Republic of Slovenia, who are engaged in economic activity and are organized as commercial companies, sole proprietors or cooperatives, can apply for the call. Investors can be companies that are registered or have notified the competent authorities between 1 January 2017 and 15 March 2018.
Call value:	EUR 2,160,000
Co-financing rate:	Up to 100% of eligible costs.
Application deadline:	20 April 2018

Foreign investors, who opened a company in Slovenia during the period, specified in the call, who also had good business ideas, could also participate in this call for proposals.

Other potentially interesting calls for foreign investors were the following:

- Research and development projects,
- Development of new innovative tourism products,
- Complementing the SME instrument,
- E-commerce 2019-2022,
- Pilot / demonstration projects.

## European Social Fund

European Social Fund invests in people, with a focus on improving employment and education opportunities across the European Union. It also aims to improve the situation of the most vulnerable people at risk of poverty.

The European Commission and Slovenia in partnership set the national priorities.

One priority is to boost the adaptability of workers with new skills, and enterprises with new ways of working. Other priorities focus on improving access to employment: by helping young people make the transition from school to work, or training less-skilled job-seekers to improve their job prospects. Indeed, vocational training and lifelong learning opportunities to give people new skills form a large part of many ESF projects.

Another priority focuses on helping people from disadvantaged groups to get jobs. This is part of enhancing ‘social inclusion’ – a sign of the important role that employment plays in helping people integrate better into society and everyday life.

The priorities are detailly described in the [Operational programme for Implementation of EU Cohesion policy for the period 2014 – 2020](#) in Slovenia.

Example of a call:

Call title:	Call for tender for the co-financing of informal education and training of employees
Contracting Authority	Public scholarship, development, disability and maintenance fund of the Republic of Slovenia
Purpose of the call:	The purpose of the public tender is to increase participation in Lifelong Learning and to improve the competences that individuals in the Republic of Slovenia need in order to meet the needs of the labor market, increase employability and mobility and personal development and work in a modern society.
Subject of the call	Co-financing the costs of non-formal education and training of employed persons.
Eligible applicants:	- Individuals in regular employment in the Republic of Slovenia; - Individual entrepreneurs, provided they are not employed by another employer; - Individuals registered in the register of self-employed persons in culture.
Call value:	EUR 2,047,151.61
Co-financing rate:	Up to 100% of eligible costs, but not more than EUR 813.33.

Application deadline:	From 25 May 2018 until the consumption of funds, but no later than 5 September 2018
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Citizenship was also not a prerequisite for this call, and foreign investors could also obtain non-formal training funds.

### [European Agricultural Fund for Rural Development](#)

European Agricultural Fund for Rural Development ensures funds for rural development in the EU.

Member States and regions draw up their rural development programs based on the needs of their territories and addressing at least four of the following six common EU priorities:

- fostering knowledge transfer and innovation in agriculture, forestry and rural areas;
- enhancing the viability and competitiveness of all types of agriculture, and promoting innovative farm technologies and sustainable forest management;
- promoting food chain organization, animal welfare and risk management in agriculture;
- restoring, preserving and enhancing ecosystems related to agriculture and forestry;
- promoting resource efficiency and supporting the shift toward a low-carbon and climate-resilient economy in the agriculture, food and forestry sectors;
- promoting social inclusion, poverty reduction and economic development in rural areas.

[The Rural Development Program of the Republic of Slovenia](#) reflects the national priorities defined by Slovenia on the basis of an analysis of the situation in agriculture, food and forestry.

Example of a call:

Call title:	Support for investments in processing, marketing or development of agricultural products for 2018
Contracting Authority	Ministry of Agriculture, Forestry and Food
Purpose of the call:	Improving the competitiveness of the food processing industry and increasing the added value of agricultural products.
Subject of the call	Support for investments in processing, marketing or development of agricultural products.
Eligible applicants:	- Holders of farms,

	<ul style="list-style-type: none"> <li>- Holders of supplementary activities on farms,</li> <li>- Individual entrepreneurs,</li> <li>- Cooperatives,</li> <li>- Institutions,</li> <li>- Companies,</li> <li>- Economic interest associations.</li> </ul>
Call value:	EUR 15,000,000
Application deadline:	12 September 2018

Foreign investors could also participate in this call, provided that they had registered one of the listed legal entities in the field of agricultural activities.

### **European Maritime and Fisheries Fund**

The fund

- helps fishermen in the transition to sustainable fishing;
- supports coastal communities in diversifying their economies;
- finances projects that create new jobs and improve quality of life along European coasts;
- supports sustainable aquaculture developments;
- makes it easier for applicants to access financing.

National priorities are described in more detail in the [Operational Program for the Implementation of the European Maritime and Fisheries Fund in the Republic of Slovenia for the period 2014-2020](#).

The fund is considered if your foreign investor deals with utility and fisheries. In this case, look through the Operational Program in more detail.

### **European Cohesion Fund**

The Cohesion Fund is aimed at Member States whose Gross National Income (GNI) per inhabitant is less than 90 % of the EU average. It aims to reduce economic and social disparities and to promote sustainable development.

For the 2014-2020 period, the Cohesion Fund concerns also Slovenia.

The Cohesion Fund allocates the funds for the activities under the following categories:

- trans-European transport networks;
- projects related to energy or transport, as long as they clearly benefit the environment in terms of energy efficiency, use of renewable energy, developing rail transport, supporting intermodality, strengthening public transport, etc.

The Cohesion Fund funds are intended primarily for directly eligible countries and municipalities. Both usually pick up sub-contractors through public calls, so if your foreign investor is active in these areas, follow up calls for this fund.

#### **4.2.2. Important / Exceptions**

The EU has several additional funds, usually managed by the European Commission or relevant EU agencies. Some of them are:

- HORIZON 2020 is the biggest EU Research and Innovation programme.
- COSME is a funding programme for the Competitiveness of EU's Small and Medium-Sized Enterprises.
- INTERREG je is a fund that enables joint development of different products by several partners on the basis of cross-border, territorial or international co-operation. Slovenia is participating in the following programmes:
  - INTERREG is a fund that allows the joint development of various partners' products through cross-border, territorial or interregional cooperation. Slovenia participates in the following programs:
  - Italy-Slovenia,
  - Slovenia-Austria,
  - Slovenia-Croatia,
  - Slovenia-Hungary,
  - Alpine area,
  - Central Europe,
  - Mediterranean,
  - Danube,
  - Adriatic-Ionian program,
  - Interreg Europe,
  - Interact III,
  - Espon and
  - Urbact III.
- EUROPEAN NEIGHBOURHOOD INSTRUMENT is the main financial instrument for promotion of co-operation among EU member states and 16 of the EU's closest Eastern and Southern Neighbours (Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria, Tunisia, Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine).
- LIFE is the EU's funding instrument for the environment and climate action. LIFE contributes to the implementation, updating and development of EU environmental and climate policy and laws by co-financing projects with European added value.

- ERASMUS + supports mobility, innovations and transfer of good practices in education

The list of all EU funds is available on [the European Commission web pages](#).

Foreign investors who have a registered legal entity in Slovenia and fulfill the conditions of individual calls are eligible for all these programs.

It is reasonable to examine individual programs and calls according to the activity of an investor.

#### **4.2.3. Tips from professionals**

Where to find opened calls for proposals?

Nationally managed calls for proposals are available on the web pages of [the Government Office for Development and European Cohesion Policy](#).

EU managed opened calls have to be searched through the [EU programmes](#).

Where to obtain further information?

All the calls for proposals list a contact point further information. They can provide useful information and support. Don't be discouraged to communicate with them. However, don't be disappointed if they only repeat what is already published in the call (usual practice).

You can get more useful information if you join the info workshops, that most of them organize.

## 4.3. LOANS FROM BANKS

This unit presents typical or the most common conditions for a business entity to obtain a loan from a bank. After reading this unit, you will:

- acquire knowledge about the most common conditions for obtaining a loan from a bank,
- understand the procedure in the context of bank formalities.

### 4.3.1. Theoretical Framework

Businesses can apply for short-term or long-term bank loans.

Short-term loans are primarily intended to finance current assets and a favorable overcoming of short-term liquidity problems. They are suitable for companies that are in the process of expansion. The maturity is up to 1 year, and the amount of the loan depends mainly on the company's past business results.

Forms of short-term financing are:

- limit on the transaction account,
- financing of current assets,
- framework loan,
- credit line in the form of fixed tranches.

Long-term loans are intended for investments in own funds, expanding the scope of operations or investing in the development of new ideas. A bank usually approves them on the basis of a business plan for the period of lending. Such a form of lending is risky for banks, which is why interest is higher and credit is to be secured.

Forms of long-term financing are the following:

- investment financing,
- long-term financing of working capital,
- project financing,
- real estate financing,
- syndicated loans.

The basic forms of insurance are:

- Bank guarantee,
- The pledge right on immovable property,
- Surety,
- Savings Balance.

### 4.3.2. Important / Exceptions

To get a bank loan approved is not the easiest process. In light of recent economic troubles across the world, lenders are looking for a lot more in a loan applicant and are much stricter. It is vital therefore to be ready to present a comprehensive, complete package for review if you want your loan to get approved.

It is important to note that concerning bank loans there are no specific rules. Each applicant is handled on a case-by-case basis and according to each bank's rules and regulations.

However, for most of them the most important is the applicant's creditworthiness. Banks identify the debtor's risk, assess investment and insurance and produce their own credit ratings.

The credit assessment generally consists of:

- financial indicators (quantitative factors) and
- "soft" information (qualitative factors).

The first is calculated on the basis of the applicant's past financial statements. In others, the subjective judgment and factors are highlighted, such as cooperation with the bank, payment discipline, the importance of key persons in the company, dependence on customers and suppliers, the quality of accounting and data presented, activity, strategy and vision, etc.

If a business entity fails to achieve a high credit rating, it will have great difficulty to obtain a loan.

### **4.3.3. Tips from professionals**

The following information includes three important steps that FDI advisor should present to the foreigner investor in order to ensure a bank loan can be processed and have higher chances to be approved:

#### **1. Understanding the options and preferences**

Before heading to a bank, foreigner investor should check out the loan packages on different banks' websites and check what competitors are offering. It is essential to be aware of the kind of loan he is searching for, the terms he can afford, and his goal for paying off the loan. Also, he should always check out the fine print before choosing to proceed.

#### **2. Asking questions**

When the investor finds the most interesting loan package, he should contact the bank immediately to find out in advance what the requirements are for loan eligibility.

#### **3. Realizing limitations and boundaries**

If the investor decides to pursue a loan, he ought to already be aware of his credit score records. Also, he needs to consider his financial limitations – he should apply for the loan based on his financial capacity to make repayments he can afford.

#### 4.4. ADDITIONAL READING

National calls:

The Government of Slovenia: *List of ministries* (on line). Available on: [http://www.vlada.si/o\\_vladi/clani\\_vlade/](http://www.vlada.si/o_vladi/clani_vlade/) (28 October 2018)

Access to EU finance. Available on: <https://europa.eu/youreurope/business/funding-grants/access-to-finance/> (22 February 2018).

Access to finance for SMEs. Available on: [https://ec.europa.eu/growth/access-to-finance\\_en](https://ec.europa.eu/growth/access-to-finance_en) (22 February 2018).

Enterprise Europe Network. Available on: <https://een.ec.europa.eu/> (22 February 2018).

European Structural and Investment Funds. Available on: [http://ec.europa.eu/regional\\_policy/en/funding/](http://ec.europa.eu/regional_policy/en/funding/) (22 February 2018).

How EU funding works. Available on: [https://ec.europa.eu/info/funding-tenders/how-eu-funding-works\\_en](https://ec.europa.eu/info/funding-tenders/how-eu-funding-works_en) (22 February 2018).

Overview of EU funding programmes. Available on: [https://ec.europa.eu/info/funding-tenders/funding-opportunities/funding-programmes/overview-funding-programmes\\_en](https://ec.europa.eu/info/funding-tenders/funding-opportunities/funding-programmes/overview-funding-programmes_en) (22 February 2018).

Startup Europe. Available on: <http://startupeuropeclub.eu/eu-funds-and-support/> (22 February 2018).

## 4.5. QUIZ AND EXERCISES

### Quiz

1. Which ministry is responsible for promotion of foreigner investments?
  - a) The Ministry of External Affairs.
  - b) The Ministry of Employment, Family, Social Affairs and Equal Opportunities.
  - c) The Ministry of Finance.
  - d) The Ministry of Economic Development and Technology.
  
2. Who is most often implementing the programmes, funded only by the national budget?
  - a) Public organizations and agencies.
  - b) Private organizations, agencies and for-profit organizations.
  - c) Public organizations, agencies and private for-profit organizations.
  - d) Private for-profit organizations.
  
3. Which of the listed Funds doesn't aim to support the development of the EU member states?
  - a) European Social Fund.
  - b) European Agricultural Fund for Rural Development.
  - c) The European Union Solidarity Fund.
  - d) European Regional Development Fund.
  
4. Which of the EU funding program could be suitable for applying for co-funding for a foreigner investor, who wants to develop a new way of selling strawberries?
  - a) European Social Fund.
  - b) European Agricultural Fund for Rural Development.
  - c) The European Union Solidarity Fund.
  - d) European Regional Development Fund.
  
5. The foreigner investor wants to develop a measurement tool for the internal air pollution, which will work on voice command. He has the knowledge to develop the tool, except for the voice management. For that part of the product development he wants to include a research institute. Would you search for a suitable call for proposals for him?
  - a) Yes, the suitable call could be found under the Research-Development projects call.
  - b) Yes, the suitable call could be found under the Pilot/Demonstrational projects.
  - c) No, there is no option to get this type of project co-funded.
  
6. Is it possible to obtain funding for the development of innovative tourism products?
  - a) Yes, through the European Regional Development Fund.
  - b) Yes, through the European Agricultural Fund for Rural Development.
  - c) Yes, through the EU COSME program.
  - d) Yes, through the EU Erasmus + program.

7. Which EU program would you consider if your investor worked in the field of education?
- Life.
  - Cosme.
  - Erasmus+.
  - IPA .
8. A foreign investor wants to develop a new product in cooperation with a company from his home country, Lebanon. Which program will you check to determine if his idea is appropriate for obtaining co-financing?
- European Neighbourhood Instrument.
  - Interreg.
  - Erasmus +.
  - Progress.
9. Which two types of loans are most common for business entities?
- Short-term and housing loans.
  - Short-term and long-term loans.
  - Long-term and housing loans.
  - Long-term and investment credit.
10. How long is the repayment period for short-term loans?
- Up to 10 months.
  - Up to 12 months.
  - Up to 14 months.
  - Up to 24 months.
11. Can a long-term loan be secured by a pledge on immovable property held by a foreign investor?
- Yes.
  - No.
12. On what basis does the bank assess the applicant's creditworthiness?
- On the basis of past financial reports and subjective assessment based on the review of payment discipline, business plan (in case of long-term credit), quality of accounting and data presented and other data.
  - On the basis of past balances and subjective assessment based on a review of payment discipline, business plan (in the case of a long-term loan), owner's personal account and other data.
  - Based on the business plan.
  - On the basis of past balances and subjective assessment based on a review of payment discipline, business plan (in the case of long-term credit), dependence on customers and suppliers, prices of accounting services and other data.

## Exercises

### Exercise 1:

Find a free of charge workshops, that the Chamber of Commerce organized in May 2018, and which would be useful to a foreigner investor who just bought a real estate with the aim to rent it out to tourists.

Please, insert link to the event, you would've sent the investor to.

Write you answer:

### Exercise 2:

Application forms are usually quite complex and require detailed knowledge of funds, tenders and project selection criteria. But that's not enough. The project idea must be better than the ideas of the competitors.

Calls with very simple application forms also appear occasionally.

Test yourself in completing one of them!

Although the call is already closed, access to the application form is still possible.

Try to obtain co-financing for an imaginary foreign investor, for learning the Slovenian language (120 hours), individual French learning (120 hours), a rhetoric course (60 hours) and a course of marketing skills (80 hours).

You can adjust the number of hours between courses (depending on the offer).

The total number of hours should be between 350 and 400.

### Exercise 3:

Micro, small and medium-sized enterprises that:

- grow gradually,
  - increase the added value per employee,
  - create new jobs,
  - do not have sufficient guarantees for securing the loan,
- can obtain a warranty and interest rate subsidy.

With which Slovenian fund?

Enter the answer:

## **Module 5: LABOUR MARKET OFFER AND EMPLOYMENT CONDITIONS**

Labour market situation and active employment policy initiatives can be crucial for attracting foreign investor's attention.

FDI advisors need to be able to present their clients with the possibilities of employment, types and procedure of employment as well as information on basic legal regulations in employer-employee relations.

### **Glossary**

**Candidate** - person chosen from employer for the purpose of employment

**EEA** – The European Economic Area. EEA countries include EU countries and Iceland, Liechtenstein and Norway. Switzerland is neither an EU nor an EEA member but is part of the single market - this means Swiss nationals have the same rights to live and work in the UK as other EEA nationals.

**Employee** - person who signed employment contract and performs activities according to his/her employers' directions

**Employer** - legal or natural person who employs workers

**EURES** - network established between European Commission and Public Employment Services in the EEA State Members which promotes labour mobility

**Foreign national employee** - employee who is not a Croatian citizen and holds an EEA, a Swiss Confederation or a third country citizenship, or is a person without citizenship

**Labour market** - labour offer and demand

**Posted worker** - employee who stays and works in another country according his/her employer's directions

**Worker** - see "Employee"

## 5.1. LABOUR MARKET

### 5.1.1. Overview/theoretical framework

In this unit, you will learn everything you need to teach your students – future F.D.I. advisors about labour market and active employment policy in Slovenia.

#### Introduction

The labour market is controlled by labour offer and labour demand. Through labour market, employers search and hire employees and employees find employment.

Since business market is opened to global competition, companies, economies and countries are confronted with bigger competition. A company's or an economy's competitiveness depends on its opportunity to adjust to market changes and on the possibility of use of the latest technical and technological achievements.

The labour market situation in Slovenia has improved a lot after the strong deterioration during the last crisis. Current unemployment rate is 5.8% (July 2018), which puts the country in the average of the EU member states.

However, the main problem is still age segmentation, which is reflected in low employment rates for young and older people and a large share of long-term unemployed.

The [Statistical Office of the Republic of Slovenia](#) collects all relevant data about the labour market (active population regarding age, education and gender, number of unemployed by age and gender...).

The [Employment office of Slovenia](#) publishes more detailed information about the unemployed, labour market needs and available work force.

It is crucial that you, as a F.D.I. advisor monitor changes on the labour market and to be well informed about the available workforce. That is very important information for foreign investors when making a decision about opening a new company and investing in a foreign country.

### **5.1.1.2. Labour market supply**

Employment office of Slovenia, as a state institution, besides regular activities such as helping unemployed people in job searching, prequalification, and education, provides various services also for employers.

A network of offices for employers all over Slovenia offer:

- help with the publication of job vacancies,
- a professional selection of qualified and motivated employment candidates,
- office for job interviews with the support of their consultants,
- assistance in fulfilling applications and forms within their services,
- information on available incentives for employment and training of the unemployed according to employer's needs,
- information on the legal obligations of an employer when recruiting a new employee.

Employers can also use other employment agencies services (e.g. [Moje Delo](#), [Adecco](#), [Manpower](#)...) which, unlike the Employment Office of Slovenia, usually require payment for their services.

Before recommending it to a foreign investor, a F.D.I. advisor should check the employment agency's background and most importantly the conditions of the cooperation.

When searching for adequate workforce employers make job advertisement that contain all data about the position, competencies, skills, and required level of education.

An employer is not obligated to inform the Employment Office of Slovenia or any other state institution about vacancies or their results. The employer can find a suitable candidate and hire him without using services of any employment agency.

However, he is obliged by law to make the job vacancy public. He can publish job advertisement in daily or weekly newspapers, the company's or selected web pages, on the news wall of own company...

Before determination of the future employees' profile (age, gender, professional qualification, work experience, and candidates' residence) and employment conditions (employment contract type and duration), it is in employers' interest to know under which conditions state funds for employment boost can be obtained.

### **5.1.1.3. Employment policies measures**

In order to decrease unemployment, the Government of the Republic of Slovenia leads an active employment policy that once a year includes the preparation of the Catalogue of Active Employment Policy Measures.

For 2018, the following measures are available:

- training and education,
- substituting on the job and job sharing,
- employment initiatives,
- job creation,
- promotion of self-employment.

They all have the following common goals:

- Decreasing unemployment rate.
- Increasing employment potential of the unemployed.
- Employment rate boost.
- Increasing of the competitiveness and flexibility of the employers.

Companies, including those owned by foreigners, can obtain a financial support for:

- training and education:

An employer and his future employee can enter the Employment Trial Programme whereby in the period of three months they check if they are suitable for each other.

An employer can also obtain small financial support for on the job training for his potential new employee.

- employment initiatives:

Employer can obtain fixed financial initiatives when employing a specific groups of unemployed (first-time job seekers, job seekers aged over 50, aged over 30 and long-term unemployed...) or a refund of social contributions for employees from a specific groups of unemployed (persons who are living alone, persons who didn't have any paid work in previous 6 months...).

### **5.1.2. Important/exceptions**

Active employment policy programmes can help expand employer's business. In order to correctly support foreign investors, you should regularly check annual employment policy measures which can be find on the [web pages of ministry, responsible for employment](#); and current opened calls, published by the [Employment Office of Slovenia](#).

### **5.1.3. Tips from professionals**

When recruiting, the support of the Employment Office of Slovenia and/or other employment agencies can be useful for the employers, including foreign investors.

F.D.I. advisors should let their clients know of the various types of free support from the Employment Office and of possibilities to obtain the initiatives of active employment measures.

## **5.2. PROVISIONS THAT REGULATE EMPLOYER–EMPLOYEE RELATION**

### **5.2.1. Overview/theoretical framework**

In the second Unit, you will be introduced to the National Legal Acts and European Union provisions in the fields of labour market and work law.

#### **5.2.1.1. European union**

The European Union seeks to promote social progress and to improve living and working conditions for European citizens.

It encourages free movement of goods, services, capital and workers. Regarding free movement of workers, it defines:

*“The free movement of workers gives every citizen of the Union, irrespective of his or her place of residence, the right to move freely to another Member State in order to work there and/or to reside there for work purposes. It protects them against discrimination on grounds of nationality as regards access to employment, conditions of employment and work, in particular with regard to remuneration, dismissal, and tax and social advantages, by ensuring their equal treatment, under national law, practice and collective agreements, in comparison to nationals of that Member State.”* (Directive 2014/15/EU of the European Parliament and of the Council of 16 April 2014 on measures facilitating the exercise of rights conferred on workers in the context of freedom of the movement for workers).

#### **5.2.1.2. EURES**

Freedom of workers’ movement in the European Union opens new possibilities for finding appropriate employees with certain knowledge and skills in any of the E.E.A. states.

With that purpose, the EURES web portal (European Employment Service) was established, with the aim of facilitating free movement of workers within the relevant countries.

Partners in the network include public employment services, trade unions and employer organisations from each of the E.E.A. states.

The EURES portal enables connections between employers and job seekers from all the participating countries.

All companies - employers that wish to advertise vacancies in Slovenia, need to have their vacancies managed by the Employment Office of Slovenia.

When foreign direct investors wish to employ or search for workers in the E.E.A. area, refer them to the relevant EURES [webpage](#).

### **5.2.1.3. National legal regulations**

National legal regulations on which employer-employee relations and working contract are based:

- Labour legislation

Labour relations in Slovenia are defined by labour legislation, if they are not defined differently by other laws or international contracts which are concluded and confirmed in accordance with the Constitution of Slovenia. The most important laws are:

- The [Law on employment relations](#),
- The [Law on employment and unemployment insurance](#).

As F.D.I. advisor you should also study the [Law on employment, self-employment and work of foreigners](#).

- Collective agreements

A collective agreement is a written agreement between workers, represented by the Union, and one or more Employers' Association, which has a legal effect.

Collective agreements define rights and obligations. Those that are not defined in detail by labour legislation, are established by collective agreement. For example, these rights and obligations include:

- annual leave regarding workers' occupational record;
- salary accounting based on workplace classification;
- various tax-free reimbursements and other rights;

Workers' and employers' obligations are established, and rights are protected with the goal of achieving equal status of worker's in the same profession.

Some of the professions in which collective agreements are established are commerce, hotel and catering industry, construction industry, wood industry.

If employers' business field is in a profession for which collective agreement is in force, he is obligated to apply it.

List of the collective agreements is published on the [web pages](#) of ministry, responsible for labour.

- Income Tax Law

[The Income Tax Law](#) defines the tax rates for residents and non-residents of Slovenia, who are receiving taxable income in the country. It also defines possible deductions and workers' right on tax-free reimbursements, authors' royalties, other income, pupils and students' payments, etc.

- Minimum Wage Law

[The law](#) prescribes the ways of defining minimum wage. That is the lowest amount of gross salary which belongs to an employee for full work time (full work time is 40 hours per week).

- Retirement and Disability Insurance Law

Ways of employees' registration and dismissal, as well as changes during employment, are defined by the [Retirement and Disability Insurance Law](#).

- Health Care and Insurance Law.

Among other, [the law](#) defines the rate of health insurance that needs to be paid by an employee and an employer within the monthly pay roll.

- Labour regulations

Labour regulation is an internal document extending the scope of the rights and obligations of an employer and an employee in their mutual relationship, which are not covered by the rest of the labour legislation. For an employer employing 10 or more employees this internal document is mandatory.

However, an employer who does not have a statutory obligation to establish Labour Regulations, still has the interest to draw it up in order to protect his interests in specific situations.

For example, an employee terminated an employment contract shortly after he started working. His employer was legally obligated to obtain all necessary certificates needed for work on his expense, which the employee could use with another employer or until their expiration. By accepting labour regulations, an employer can protect himself and obligate an employee for a refund of the whole or a certain percent of this expense.

Labour regulation must not be in conflict with any of the other provisions of labour legislation.

Before signing an employment contract, an employer is obligated to inform his employee on the Labour Regulations, if there are any, in order for him to read and sign it as a sign of his accepting of the rules.

### **5.2.2. Important/exceptions**

#### **Employment of foreign nationals**

The employment of foreign nationals is arranged by the Employment, Self-employment and Work of Foreigners Act ([ZZSDT-UPB2](#), Official Gazette 1/2018). This act lays down the conditions for the employment, self-employment and work of foreigners and the related tasks of the Republic of Slovenia in regulating and protecting the labour market. The Republic of Slovenia shall conclude international agreements by which it defines the conditions for the employment, self-employment and work of foreigners and shall adopt measures defined by this Act to protect its labour market.

Based on Employment, Self-employment and Work of Foreigners Act, the Government of the Republic of Slovenia every year issues a regulation on the determination of the work permit quota which limits the number of foreigners on the labour market.

The quota of work permits is determined in the total amount of 12,000 work permits and is intended for foreigners who do not have a residence permit in the Republic of Slovenia and for foreigners who are employed on the basis of a work permit after the end of the seasonal work.

The quota does not include work permits issued to:

- nationals of the Member States of the European Union, the European Economic Area or the Swiss Confederation and their family members, irrespective of their nationality, provided that work permits are issued on the basis of the agreements concluded;
- foreigners for whom work permits are not prescribed by law;
- foreigners with a personal work permit;
- agents; and
- foreign posted workers for additional education.

A quota of 11,000 work permits is distributed according to the purposes of:

- 8,800 employment permits for the employment of foreigners,
- 1,500 work permits for seconded foreigners,
- 100 work and training permits,
- 500 work permits for the seasonal work of aliens, and
- 100 work permits for individual services provided by foreigners.

In the conversion of the quota, at least 50% of the reallocated quota shall be allocated for the reallocation of part of the unused quota for the employment of foreigners according to the priority list, namely:

- 95% for foreigners resident in the territory of the countries of Bosnia and Herzegovina, the Republic of Montenegro, the Republic of Croatia, the Republic of Macedonia, and the Republic of Serbia (excluding Kosovo), and
- 5% for foreigners resident in the territory of other third countries (including Kosovo).

In the event that the quota for a work permit is used (11,000 permits), the Ministry of Labour, Family, Social Affairs and Equal Opportunities may, in the framework of an undistributed quota, further distribute 1,000 work permits, but only to a foreigner with education comparable to at least higher education or higher professional education at the sixth level in accordance with the Regulation on the Introduction and Use of a Classification System of Education and Training, to which the employer will pay a salary of at least 2.5 minimum wages. If the Employment Service, which implements the supervision of the implementation of the Regulation, finds that an employer does not pay salaries in a certain amount, the employment permit is annulled and the employer is not allowed to issue new employment permits during the period of validity of the Regulation.

Any changes regarding the employment of foreigners, including quotas, are publicly announced by the [Employment Office of Slovenia](#).

### **Referral to work abroad and rights of posted workers**

Posted workers are persons employed by an employer with a head office in Slovenia sent to work or to professional training abroad if they are not compulsorily insured in the country to which they were sent.

At the time of posting, posted workers and self-employed persons who carry out similar business in a another country remain included in compulsory social insurance in Slovenia. Employer or a self-employed person in Slovenia pays contributions from all remuneration from work or activity.

The posted workers and self-employed persons have the right to cover the costs of necessary services and use them in another country at the time of posting. In the case of EU countries,

Iceland, Liechtenstein, Norway, Switzerland, Bosnia and Herzegovina, Montenegro, Macedonia and Serbia, this right is exercised through a European health insurance card.

Posting and enforcement procedures vary whether a person is posted to work in:

- EU Member States, Iceland, Liechtenstein, Norway and Switzerland, or
- countries with which Slovenia has bilateral agreements on social insurance (Bosnia and Herzegovina, Montenegro, Macedonia and Serbia), or
- countries that are not subject to the European legal order or bilateral social insurance agreements.

Before the referral, employers and self-employed persons must obtain a certificate A1 for each posted worker at the Institute of Public Health (ZZZS) by which the worker in the seconded country shows that the regulations on social security of the Republic of Slovenia continue to apply during the cross-border implementation of the service.

### **5.2.3. Tips from professionals**

F.D.I. advisors should inform their clients that penalties are high, even after a company is closed down, in case of an unregistered employee, employment contract that is not coordinated with legislation, employees' late registrations, payment under minimum salary, non-payment of salary and legal obligations, employment contract manipulations or even contracts that were filled out incorrectly or not completely.

Inspection is made by Labour Inspectorate of the Republic of Slovenia and Financial Office of the Republic of Slovenia.

## **5.3. TYPES OF EMPLOYMENT**

### **5.3.1. Overview/theoretical framework**

This Unit is designed to introduce types and procedures of employment and additional useful information in employer-employee relations that as a F.D.I. advisor you should know about.

After acquiring the relevant knowledge from this field, you will be qualified to:

- understand and implement different types of employment procedure
- understand implementation of national legal provisions from work and work relations fields

### **Introduction**

There are several types of employment based on legal regulations on which employment contract between employer and employee can be concluded.

- **Permanent employment**  
Employment without a termination date.
  
- **Fixed-term employment**  
Employment with specified reasons for employment and set termination date.
  
- **Seasonal employment**  
Fixed-term employment with specified termination date.
  
- **Permanent seasonal employment**  
The occupational record is active even though an employee does not work. During standby employer pays monthly retirement contribution while health insurance is paid by the state (as one of the employment boost measures).

### **Employers' and employees' obligations**

An employer must first arrange for the appropriate publication of a vacancy that can be posted through various media (on its website, on the website of employment agencies, via social networks, radio, newspapers, etc.). The advertisement of a vacancy usually includes the essential work tasks that the selected candidate will perform at the workplace, as well as the employer's requirements (level of education, work experience, foreign language skills, other skills and qualities ...). The advertisement for the vacancy also includes the deadline for registration and the contact person who takes care of the selection of new staff.

Once the advertisement for a vacancy has been published and applied for by the candidates, the employer or the person in charge of the selection of the new staff must ensure that the selection procedure is followed, taking into account the constitutional principle of non-discrimination (if the unselected candidate believes that in the selection the legal prohibition of discrimination has been violated, he may request judicial protection before the competent labour court within 30 days after receiving the notification from the employer) to inform potential candidates about the working conditions and inform the unselected candidates on the non-selection.

Before starting work, an employer must send a worker to a medical examination and training in occupational safety. Training of employees, which is an employer's legal obligation for all workers, including students and students, as well as workers who occasionally perform work with him on the basis of a contractual agreement or other legally formal form of employment relationship.

An employer must give a worker an annual leave in accordance with the Employment Relationships Act (ZDR-1) - which stipulates that the annual leave in a particular calendar year must not be shorter than four weeks, regardless of whether the worker is hired full-time or for shorter working time, which is potentially regulated by a collective agreement binding on the employer and internal acts of the employer.

When employer has chosen a candidate, the following steps are required:

If this is the candidate's first employment or more than 12 months have passed since the cessation of a particular job at a particular workplace, he must first mandatorily pass a preventive medical examination. This is stated in the Occupational Safety and Health Act (ZVZD-1).

It is advisable to refer every new worker to a medical examination in the "occupational health clinic" before the conclusion of the employment contract.

Prior to the conclusion of the employment contract, the selected candidate must be acquainted with the work or the type of work as well as with other rights, obligations and working conditions.

### **Personal data protection and presentation and acceptance of Labour Regulations**

The EU General Data Protection Regulation (GDPR) is the most important change in data privacy regulation in 20 years. The regulation will fundamentally reshape the way in which data is handled across every sector, from healthcare to banking and beyond.

GDPR replaces the Data Protection Directive 95/46/EC and is designed to:

- harmonize data privacy laws across Europe,
- protect and empower all EU citizens' data privacy,
- reshape the way organizations across the region approach data privacy.

In work relationships, the protection of personal data is particularly sensitive. The assumption here is that the fundamental condition of the contractual relationship between an employer and an employee is trust, which must be reciprocal and is demonstrated by the conclusion of the employment contract or other act with similar consequences. Despite the trust which must exist between the worker and the employer, on the one hand there is a legitimate interest of the employer who has the right to control the use of his assets (e.g. telephones, computer networks, machines, premises) and the work process, while on the other hand there is a legitimate interest of the employee, who justifiably expects a certain degree of privacy and trust and partial autonomy also at the workplace. It also should not be ignored that the case law of the European Court of Human Rights grants workers the right to a fairly wide range of privacy at the workplace.

An employer is obligated to present an employee with Labour Regulations, if there are any, in order for the employee to read and sign as acceptance. On the other hand, employee has to read it and sign Decision of its acceptance.

### **Work safety and fire protection**

The Health and Safety at Work Act (ZVZD-1) lays down the rights and obligations of employers and workers with respect to healthy and safe work, as well as measures to ensure health and safety at work.

This Act also defines the competent authorities in the field of health and safety at work.

Implementing regulations concerning health and safety at work shall be issued by the minister responsible for labour and the minister responsible for the field to which a given implementing regulation pertains, after consultation with social partners within the Economic and Social Council.

Employers shall ensure health and safety at work in accordance with this Act, other regulations and guidelines.

Each company needs to have Rules on the Requirements for Ensuring the Safety and Health of Workers at Workplaces.

Work safety is a legal obligation for every employer. If he is not qualified himself or does not have a qualified employee, he must use the services of an external associate.

A worker has to pass the work safety exam for each new employment.

### **Employment contract**

The employment contract is the contract with which the employment relationship is concluded. The employment contract is generally concluded for an indefinite period, full-time (40 hours per week). Due to the increasing need for work flexibility, contracts are increasingly used that

deviate from the standard form, such as a fixed-term employment contract. If a contract does not specify the duration of the contract, the contract shall be deemed to be concluded for an indefinite period of time.

A contract of employment may be concluded by a person who has reached the age of 15 years. Concluding a contract with a person under the age of 15 is invalid.

By law, an employment contract must be concluded in writing. An employer who fails to hand over a work contract in written form to an employee shall commit an offense.

### **Procedure for the conclusion of a contract of employment**

Registration of a vacancy. An employer who employs new workers must publish the vacancy or type of work (hereinafter: work) publicly (in the media, on websites or in publicly available business premises). But there is no longer a mandatory publication with the Employment Service of Slovenia (the latter still offers the possibility of a free publication). The mandatory publication of a vacancy at the Employment Service is still valid for employers in the public sector or for companies that are state-owned. The publication of free works must include the conditions for performing the work and the deadlines for the application. This time limit may not be shorter than 3 days. You can apply for free work using the Application Requirement Form for Workers or Trainees which can be completed and submitted through the Employment Service website.

A worker must not start work before concluding an employment contract.

If the date of the entry into the contract is not specified, it shall be deemed to be the date of conclusion of the employment contract.

An employer must provide a worker with a written proposal of the employment contract at least 3 days before the intended conclusion.

### **The employment contract must include:**

- information on contracting parties,
- date of commencement of work,
- the name of the job or type of work, with a brief description of the work,
- place of work,
  
- the time for which the contract of employment is concluded,
- determine whether a full-time or part-time employment contract exists,
- the provision of daily or weekly working time and the allocation of working time,
- a provision on the amount of the basic salary of a worker in EUR to which he is entitled to perform work under a contract of employment and of any other payments,

- a provision on the other components of the salary of a worker, the payment period, the payment date and the method of payment of wages,
- the provision on annual leave or the method of determining annual leave,
- the length of the notice periods,
- the indication of collective agreements binding on the employer, or the general acts of the employer, which determine the conditions of work of the worker,
- other rights and obligations in cases specified by law.

An employer is obliged to register an employee with a compulsory pension, disability, health insurance and unemployment insurance agency at the latest before the commencement of work or, at the latest on the day of commencement of work. The employee must submit a photocopy of this application. (See chapter ***Registration in retirement and health insurance system***).

### **Fixed-term employment contract specifics**

The fixed-term employment contract can therefore be concluded in exceptional cases referred to in the Employment Relationships Act:

- the execution of a work which, by its nature, takes a certain time,
- replacing a temporarily absent worker,
- temporarily increased workload,
- employment of an alien or a stateless person who has a single permit as stipulated by the law governing the entry and residence of aliens and permission for seasonal work as defined by the act regulating employment, self-employment and the work of foreigners, except where a single permit is issued to on the basis of an agreement for employment, self-employment or work,
- a manager or procurator,
- a leading worker (under certain conditions defined in Article 74 of the Employment Relationships Act),
- performing seasonal work,
- a worker who concludes a fixed-term employment contract for the purpose of preparing for work, training or upgrading for work or education,
- fixed-term employment due to work during the adaptation period on the basis of a final decision and a certificate from the competent authority issued in the procedure for the recognition of qualifications under a special law,
- performing public works or inclusion in active employment policy measures in accordance with the law,
- preparation or implementation of a project that is organized in a project,
- work needed at the time of the introduction of new programs, new technology and other technical and technological improvements in the work process or for the training of workers,
- elected and appointed officials or other employees who are bound to the mandate of an

authority or functionary in local communities, political parties, trade unions, chambers, societies and their associations,

-other cases provided by law or collective agreement at the level of activity.

An employer may conclude several successive employment contracts with the same worker and for the same work, but the continuous duration of such employment may not be longer than two years. The law explicitly provides that a three-month or shorter interruption does not constitute an interruption of the successive conclusion of employment contracts. Exceptions are possible only in statutory cases and in cases where:

-the worker replaces a temporarily absent worker,

-it is the employment of an alien or a stateless person (under the conditions laid down in the legislation),

-the worker is a manager,

-it is a leading worker (under the terms of Article 74 of the Act),

-these are workers who are elected and appointed as officials or other workers who are bound to the mandate of an authority or functionary in local communities, political parties, trade unions, chambers, societies and their associations.

### **Teleworking contract specifics**

Teleworking contract (work from home) has prescribed content as well as standard employment contract in which additional conditions can be added.

Some of the additional elements can be: use of equipment, materials, communication costs payment, defining the responsible person, work time, work organization, quality and quantity of products/services, business timeframe.

Teleworking of their employees must be reported to the Inspectorate of Labour before they can begin working from home. They must inform on the name of the worker performing work at home, how much time he will work at home, how much time he will spend on the site, and the content of this work.

Workers at home are granted the same rights as workers who work in the workplace of the employer. This applies both to the right to participate in management and to the trade union organization as well as to reimbursing the costs for snacks. The worker does not receive compensation for transportation to and from work if he does not incur a cost for the time he is working from home.

Given that in accordance with the Employment Relationships Act (ZDR-1), a worker has the right to compensation for the use of his assets when working at home, in this case, the employer would have to specify in the contract of employment how much of the costs he will reimburse him for. The law does not specify what exactly the compensation for the use of funds would involve, however, in this matter the inspectorate includes the costs of energy, water, maintenance of machines and equipment.

## **Other employer-employee obligations**

Certain specific business legislation requires that employees pass additional exams, for example:

- In some industries connected with user/customer's health protection, employee is obligated to pass a sanitary examination. Sanitary certificate has to be renewed within the legal deadline.
- Employees in catering industry must pass a hygienic minimum exam.
- Construction workers are obligated to undergo health examination before employment.

Additionally, each employer is obliged to choose a specialist of occupational medicine for his employees, usually according to the working place, by filling in the appropriate form verified by a stamp and signature of the responsible person. The employees have to be informed about the responsible chosen specialist of occupational medicine.

## **Registration in the retirement and health insurance system**

When hiring an employee, an employer must conduct a registration in social and retirement security subject registry. When concluding an employment contract, compulsory health insurance must be arranged by employer, with M1-form.

As from 1 January 2016, compulsory social insurance must be registered through the e-VEM portal. For the purposes of registration taxpayers are registered as Business Entities in the Business Register of Slovenia (eg a company, sole proprietor, self-employed person).

Registration forms for legal entity and natural person are the same. They can be find on following [e-VEM portal](#).

### **5.3.2. Important/exceptions**

Every employer employing at least 20 people has the obligation to meet an invalidity quota, which means that he has to employ between 2 and 6% of disabled people (depending on the registered activity). A taxpayer may fulfil his obligation regarding the quota by:

- employing the prescribed number of disabled people, or
- paying a contribution to promote the employment of people with disabilities.

Detailed information about employment of disabled persons, prescribed formula, Professional rehabilitation and employment of disabled persons and Regulations can be found on the [web pages of the ministry, responsible for labour](#).

### 5.3.3. Tips from professionals

#### Management contracts

The Employment Relationships Act (ZDR), which regulates labour relations, also specifies the special features of the employment relationship of managers.

Managers are the following:

- member of the Management Board,
- Executive Director,
- manager
- procurist
- by way of exception, also a member of the Management Board.

Workers who are regarded managers (or their posts) are defined by a special act of the company, which defines management posts and their powers.

For the delimitation between managers and executives, it is essential that in the company that they run managers hold the status and legal position arising from the ZGD-1, while executives do not have such a position.

While managers (directors and executive directors) hold a legal and contractual (working) relationship in a company, executives only establish a contractual relationship with a company they work for.

The responsibilities of managers are defined in the statutory regulations and in the employment contract. The responsibilities of managers are defined only by the employment contract, the internal acts of the employer or the decisions of managers.

**Benefits** are all benefits (products, services or other benefits in kind) provided by the employer or other person in relation to employment to an employee. Attention: also applies if the credit rating is provided to the family member of the employee.

The most common credit ratings that employers often offer to employees is the use of a private vehicle for private purposes. A bonus is paid to an employee only if he uses the car for private purposes. In the tax base - in the gross salary of an employee - each month of use is added to 1.5 percent of the value of the car. This is the case if the employer does not repay the employee for the fuel. If he also pays for fuel costs, this percentage increases to 1.875 percent of the value of the car. If an employee uses a vehicle for official and private purposes, he must keep a record of the kilometres travelled and consciously separate business routes from private ones. In this context, proper documentation is required, in particular travel orders, in a consistent and detailed manner. Travel orders are, for example, a condition for the compensation of costs. The benefits deriving from an employment relationship are taxed in the same way as earnings from an employment relationship. Thus, they increase the employee's gross income which means higher income tax.

## 5.4. ADDITIONAL READING

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[http://www.mddsz.gov.si/si/delovna\\_podrocja/delovna\\_razmerja\\_in\\_pravice\\_iz\\_dela/delovna\\_razmerja/](http://www.mddsz.gov.si/si/delovna_podrocja/delovna_razmerja_in_pravice_iz_dela/delovna_razmerja/)

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## 5.5. QUIZ AND EXERCISES

### Quiz

1. Which public institution tracks changes on the labour market in details?
  - a) Ministry of Labour, Family, Social Affairs and Equal Opportunities
  - b) Tax Department
  - c) Employment Office of Slovenia
  - d) Statistical Office of Slovenia
  
2. Apart from the Employment Office of Slovenia, who helps employers in process of finding suitable employees?
  - a) Agency for the Development of Entrepreneurship
  - b) Agency for Labour Market Integration
  - c) Unemployment Agency
  - d) Other employment agencies
  
3. Where can employer not publish job advertisements?
  - a) In daily or weekly newspapers
  - b) On the Commercial Court notice board
  - c) On the web pages of the Employment Office of Slovenia
  - d) On its own web page
  
4. Which service is not provided to employers when searching a suitable employee through the Employment Office of Slovenia?
  - a) Information on available incentives for employment and training of the unemployed for employer's needs
  - b) Mentor program for vocational training
  - c) Using the facilities for meetings when having interview with potential candidate
  - d) Selection of an appropriate candidate
  
5. Which is one of the common goals of all active employment policies measures?
  - a) Improving computer skills of youngsters
  - b) Decreasing unemployment rate
  - c) Investments into seasonal employment
  - d) Preventing work on the black market
  
6. Labour relations in Slovenia are defined by:
  - a) Labour law
  - b) Work relations law
  - c) Employment Relationship Act

d) Trade union agreement

7. When does an employer need to apply Collective Agreement?

- a) when drawing up a contract of employment which applies to all areas of employment or to employers
- b) when hiring more than 20 workers
- c) when the restaurant is bigger than 100m<sup>2</sup>
- d) when his activity is carried out at night

8. Workers' rights and reliefs on tax-free reimbursement are defined by:

- a) Labour law
- b) Contributions' law
- c) Income Tax Law
- d) Employees' rights law

9. Who is obligated to apply Labour regulation?

- a) Employer for whose activities a Collective Agreement was drawn up
- b) Employer who hires 10 or more employees
- c) Employer who hires more than 30 employees
- d) Employer who hires invalids

10. Deadline for registration of an employee in Retirement Insurance System is:

- a) on the first day of work before his working time began
- b) one day before the start of work of the employee
- c) on the first day of work during his working time
- d) 8 days after his work officially began

11. Which laws regulate EU foreign citizens' special status that needs to be included in the employment contract?

- a) Foreign Citizens Act
- b) Insurance Act
- c) Employment, Self-employment and Work of Foreigners' Act and Employment Relationship Act

d) National Minorities Act

12. Decision on the annual quota of foreign citizens' employment permit establishes annual quota for seasonal work in:

- a) construction
- b) agriculture and forestry
- c) wood industry
- d) tourism

13. What does the abbreviation of EURES means?

- a) European Employment Service
- b) European Portal for the Rights of Employees
- c) European Portal for Human Rights
- d) European Portal for Student Mobility

14. Should foreigners obtain a work permit for employment in Slovenia?

- a) The rights of citizens of EU, EEA and Switzerland are equal to the rights of citizens of Slovenia, and all citizens of countries outside the EU must obtain a work permit
- b) Only citizens of BiH need authorization
- c) No, no license is required for foreigners

15. "Undeclared employment" is controlled by:

- a) Retirement Service and Health Insurance
- b) Employment Service and occupational medicine
- c) Tax Department and Employment Service
- d) Ministry of Finance – Financial Administration of the Republic of Slovenia

### Exercises

Exercise 1:

An employer found the right candidate and wants to offer him permanent employment on the position of web designer.

Candidate's data:

Age: 28

Occupation – education: web designer

Work experience: 6 months on the position of "web designer"

Registered as unemployed: 8 months

Is the employer entitled to receive the initiative for the employment under the active employment measure of “Permanent Employment of Young People?”

Write the answer:

Exercise 2:

Employment Relationship Act (ZDR-1) sets the minimum right to use annual holiday which is determined by the duration of the working days. Explore and compare ZDR-1 and different collective agreements (for Health and Social work, Trade, Construction and for Catering and Tourism). Determine the base or minimum annual holiday for each example and find out how much additional holiday is given to a worker with 18 years of service, with 2 children aged 10 and 16 years.

Write the answer:

Exercise 3:

Help a client to hire a worker during the summer season.

1. Find the application form and report the need for the worker to the Employment Service.
2. Find the application form and fill out the Employment Contract
3. Find the application form and register the employer in the Health Insurance System

Write the answer:

## **Module 6: PROCEDURES AND CONDITIONS FOR OBTAINING WORK AND LIVING PERMIT AND FAMILY REUNIFICATION IN HOST COUNTRY**

The conditions for obtaining temporary and permanent residence permits are defined in provisions in the Foreigners Act (Official Gazette, 50/2011, 1/2018, 9/2018) and accompanying bylaws.

After harmonisation of national legislation with European Union legislation, status of foreign nationals from EEA, Swiss Confederation or Third-country nationals is different. Consequently, there are also differences in conditions and procedures for acquiring work and residence permit; and citizenship.

### **Glossary**

**Affidavit of support** - a document attesting the purpose of an foreigner's stay in the Republic of Slovenia and that he has accommodation and sufficient financial resources for the stay in the Republic of Slovenia and return to the country of origin, which the third country national produces in required situations.

**Alien** - a person who is not a citizen of the Republic of Slovenia, however more common use is a foreigner.

**Apostille** - (extra) authentication or legalization of public documents which are used in international legal circulation.

**Carrier** - any natural or legal person professionally engaged in the transportation of passengers by air, sea or land.

**Daily migrant worker** – a foreigner with permanent residence in a neighbouring country to which he returns and from which he enters the Republic of Slovenia on a daily basis for the purposes of employment or other work.

**Departure** - exit from the national territory of the Republic of Slovenia.

**Employee** - person who signed employment contract and works by the employer's order.

**Entry** - arrival to the national territory of the Republic of Slovenia.

**EU** - European Union.

**EEA** - European Economic Area, which includes EU countries, Iceland, Liechtenstein and Norway.

**EU citizen** – a person who holds the citizenship of EU Member State.

**EU Blue Card** - an authorisation for temporary stay for the purposes of highly qualified employment which bears the term "EU Blue Card". It is issued by an EU Member State for the purposes of highly qualified employment of a foreigner who is a third-country national, entitling him to enter, reside and work in an EU Member State.

**Foreigner** – a person who is not a citizen of the Republic of Slovenia.

**Foreign employer** - legal or natural entity who has business address in EEA.

**Foreign national** - person who is not Slovene citizen, but has EEA, Swiss Confederation or third-country citizenship, or is a person without citizenship.

**Higher education institution** - any university, faculty, academy of art and professional college, pursuant education in accordance with the Act governing higher education.

**Highly qualified employment** - the employment of a third-country national as specified for the purposes of the acquisition of an EU Blue Card in the Act governing the employment and work of foreigners in the Republic of Slovenia.

**Posted worker** - employee who works and resides in foreign country.

**Refugee** - a displaced person who has been forced to cross national boundaries and who cannot return home safely.

**Researcher** – a foreigner selected by a research organisation to carry out a research project who is a third-country national with higher education qualifications suitable for access to doctoral programmes.

**Research organisation** - any legal entity governed by public or private law that fulfils the conditions for conducting research and development in accordance with the regulations governing research and development activities in the Republic of Slovenia, which has obtained authorisation from the ministry responsible for science and technology to enter into hosting agreements with non-Slovenian researchers.

**Third country** - a non-Member State of the European Union.

**Transit** - passage across the national territory of the Republic of Slovenia.

**Voluntary return** - the return of a foreigner who has been issued with a return decision and who returns voluntarily within a set term to his country of citizenship or to the country of his last residence as a stateless person or any other country provided that this state is willing to admit him.

**Worker** - substitute for "employee".

**Worker on secondment** – a foreigner working for a non-Slovenian employer during the provision of contractual services on the territory of the Republic of Slovenia, for whom the employer pays social insurance contributions.

## **6.1. REGULATING STAY AND WORK OF FOREIGNERS IN REPUBLIC OF SLOVENIA**

This Unit is designed to introduce the term of foreign citizens, and categories of foreigners to the learners. It will familiarise you with basic characteristics of certain categories and basic conditions which are required to fulfil in order to obtain stay and work permit.

After acquiring knowledge from this unit, you will have the knowledge and skills to teach future FDI advisors to:

- Know the differences in conditions and procedures for obtaining work and residence permits based on different foreign nationals' status,
- inform foreign citizens of conditions and procedures for obtaining work and residence permits; depending on their status.

### **6.1.1. Overview/Theoretical framework**

#### **Foreign nationals' categories and types of residence and work permits**

The conditions for granting temporary or permanent stay to foreigners are regulated by the Foreigners Act (Official Gazette, 50/2011, 1/2018, 9/2018) and accompanying bylaws. The act sets out the conditions for and methods of entry into, departure from and residence of foreigners in the Republic of Slovenia.

Foreigners in Slovenia are divided into two larger groups which differ according country, from which they are coming from; namely:

- European Economic Area Member States' nationals (EEA members are the European Union Member States, Norway, Iceland and Liechtenstein) and nationals of Switzerland.
- Nationals of all other (third) countries.

#### **a) Residence permits for citizens of EEA and Switzerland**

Citizens of EEA and Switzerland can freely enter and have free access to the Slovenian labor market. However...

#### **Entering Slovenia**

A citizen from the territory of EEA and Switzerland does not require an entry permit, i.e., a visa or residence permit for entry into the Republic of Slovenia. He can enter the country with a valid identity card or valid passport irrespective of the reason or purpose for which he wants to enter and reside there. He can leave the Republic of Slovenia with a valid identity card or valid passport.

The citizen shall be refused entry if:

- he does not have a valid identity card or a valid passport,
- the period has not yet passed for which he has been denied entry into the country,
- his residence in the Republic of Slovenia would pose a threat to the public order, security or international relations of the Republic of Slovenia, or if there is a suspicion that his stay in the country will be connected with the conduct of terrorist acts or other acts of violence, illegal intelligence activities, production or trafficking in drugs, enforcement of other criminal offenses,
- he shows serious signs of an infectious disease with the possibility of an epidemic listed in the World Health Organization's International Health Regulations, or serious signs of another infectious disease that could endanger human health and for which, in accordance with the law governing infectious diseases, it is necessary to take the prescribed measures.

The refusal of entry shall be decided upon by the border-crossing supervisory authority, in accordance with the instructions issued by the Minister of the Interior concerning the existence of the reasons referred to in the preceding paragraph. A citizen from the EEA or Switzerland may appeal against the refusal of entry within eight days. The Ministry of the Interior decides on the appeal. The appeal does not suspend the execution.

### **Residence registration and residence permit**

A citizen from the EEA or Switzerland who comes to the Republic of Slovenia with a valid identity card or a valid passport may reside in the territory of the country without a residence registration for three months from the date of entry into the country. If he wishes to reside in the territory of the Republic of Slovenia for more than three months, he must register his residence before the expiration of a three-month period of permitted residence at the administrative unit in the territory of which he resides.

The administrative unit shall issue to the citizen a certificate confirming the application for the issue of a certificate of registration of residence permitting him to stay until the final decision on the application is made.

The reasons why a citizen can be issued a residence registration certificate are the following:

- employment or work,
- self-employment,
- provision of services,
- studies or other forms of education,
- family reunification, and
- other reasons.

The issuing of a residence registration certificate is the responsibility of the administrative unit in the territory of which the citizen resides.

## **b) Work and residence permits for third countries nationals**

Citizens from all other (third) countries need to acquire a permit to work and/ or stay in Slovenia. Several different permits are possible:

### **- Single work and residence permit for third countries nationals**

A single permit for foreigners from third countries allows them to enter the country and to stay, seek employment and work in Slovenia.

In the procedure for a single permit, which is managed by an administrative unit, the Employment Service of Slovenia grants consent to this authorization if the legal conditions for a particular type of consent are fulfilled.

The Employment Service of Slovenia grants consent for:

- employment, self-employment or work,
- employment, extension of employment, written approval for the replacement of a post with the same employer, the replacement of the employer or the employment with two or more employers,
- EU Blue Card,
- posted workers,
- training or upgrading of foreigners,
- individual services of foreigners,
- the work of an agent that is longer than 90 days in each calendar year, or
- seasonal work in agriculture, which is longer than 90 days.

The first single permit shall be issued to a foreigner for the duration of the employment contract or the contract concluded for the performance of the work, but not longer than one year.

A single permit may be extended after the expiration date if the foreigner or his employer requests in time to renew the single permit, for the duration of the employment contract or the contract concluded for the performance of the work, but for a maximum of two years.

A foreigner with a single permit may change his post with the same employer during the period of its validity, replace an employer or obtain employment with two or more employers or conclude a new labor contract on the basis of the written approval of the administrative unit which issued a written approval in the form of a decision after receiving the consent of the Employment Service of Slovenia.

### **- EU blue card**

The EU Blue Card is issued to a foreigner who wants to enter and reside in the Republic of Slovenia based on his high qualifications.

A foreigner with a Blue Card may immediately exercise the right to family reunion (in other cases the procedure can be started only after one year of foreigner's residence in Slovenia).

The Blue Card is valid for a period of two years, before the expiry a foreigner may apply for prolongation.

#### **- Temporary residence permits for the purpose of study**

A foreigner admitted to a study course, other forms of education, specialization, professional training, practical training, or participating in an international study exchange in the relevant educational institutions in the Republic of Slovenia or in educational programs for international volunteer exchanges, may be issued a temporary residence permit. As evidence of the fulfillment of the condition of sufficient means of subsistence, monthly at least in the amount of the basic amount of minimum income in the Republic of Slovenia, a written statement from the student's parents or his legal representative that they will support him during his studies is sufficient.

Temporary residence permit for study, education, specialization or professional development is issued for the duration of the study, but not longer than one year. In the event that study, education, specialization, professional training last longer than one year, the permit may be renewed annually.

A foreigner who is studying or educating himself in the Republic of Slovenia, and has obtained a temporary residence permit issued for the purposes of study, may also be employed or work in the Republic of Slovenia during the period of validity of this authorization, under the conditions laid down in the laws governing the working relationships and work of students.

#### **- Permission for seasonal work**

Seasonal work can be performed in agriculture or forestry. It is inextricably linked to the season in which a particular activity is characterized by a marked increase in the need for workers.

Foreigners performing seasonal work need a seasonal work permit issued by the Employment Service of Slovenia. The total duration of one or more current permits for seasonal work performed by a foreigner with the same or another employer or contracting authority may not exceed 90 days in a calendar year.

Foreigners who perform seasonal work for more than 90 days in a calendar year need to obtain a single permit issued on the basis of consent for seasonal work.

### **6.1.2. Important/exceptions**

On 1<sup>st</sup> March 2013 the Bilateral Agreement on Employment between Slovenia and Bosnia and Herzegovina (BIH) entered into force, which sets out the conditions and procedure for issuing work permit for BIH citizens. The permit is issued by the Employment Office, which is taken as consensus to the single residence permit, issued by the Administrative Unit.

BIH citizens may be employed in Slovenia in case of:

- registration at the Employment office in BIH as an unemployed person,
- no suitable Slovenian candidates for the workplace,
- fulfilment of a certain statutory conditions.

The employment agreement shall be concluded for a period of one year.

Before the expiry of a work permit a foreigner may apply for prolongation. In the case of the fulfilment of conditions, the permit can be prolonged for a period of three years.

### **6.1.3. Tips from professionals**

Since regulations are changing rapidly, FDI advisor should check the data on the provided web pages, or directly contact the relevant stakeholders, before giving any information or starting the permit procedure for foreign investors.

## **6.2. CONDITIONS AND PROCEDURES FOR OBTAINING RESIDENCE AND/OR WORK PERMITS**

This Unit is designed to introduce you the procedures and conditions for obtaining residence and/or work permits in Slovenia.

After acquiring knowledge from this Unit, you will have knowledge to make your learners qualified to:

- inform and/or lead foreign citizens through the process of obtaining different types of temporary work and/or residence permits.

### **6.2.1. Overview/theoretical framework**

#### **6.2.1.1 Residence permits for citizens of EEA and Switzerland**

##### Conditions

A national of EEA or Swiss confederation needs to obtain resident permit in Republic of Slovenia for a stay longer than 3 months.

The certificate of residence registration is obtained if the citizen has a valid identity card or a valid passport and if he intends to remain in Slovenia for one of the following reasons:

- for employment reasons;
- as a self-employed person or service provider;
- for studies or other forms of education;
- for the purpose of family reunion and other reasons.

If he fulfills the conditions for issuing a residence registration certificate, the certificate shall be issued with the validity of five years or for the period of his intended stay in the Republic of Slovenia, if it is shorter. The application for residence registration may be renewed at his request under the same conditions as are those which are required for issuing it.

##### Procedure

Citizen of EEA or Switzerland who wants to stay in Slovenia more than three months has to register his stay by filing the temporary residence permit application on the designated form ([sample of the form](#)).

##### Documentation needed

In addition to the application for a temporary residence certificate, a foreigner must submit a valid identity card or a valid passport, as well as evidence of the purpose or reason of stay:

- due to employment or work - a certificate from the employer that he will employ him or proof of employment or job performance when a foreigner is already employed or engaged in work;
- a self-employed person or service provider - proof of self-employment or proof that the foreigner is a service provider;
- for the purpose of studying or other forms of education - proof of admission to study or other form of education, sufficient means of subsistence (in determining, the personal situation of an EEA citizen is taken into account, and these funds must not be lower than the level set for acquiring the right to a financial social assistance in accordance with the law governing social protection and adequate health insurance. A student's statement is sufficient proof of sufficient means of subsistence);
- due to family reunification and other reasons - sufficient means of subsistence (in determining, the personal situation of the EEA citizen and his family member is taken into account; these funds must not be lower than the level determined for the acquisition of the right to financial social assistance in accordance with the law which regulates social protection) and adequate health insurance.

#### Where to apply?

The administrative unit in which the EU citizen resides is responsible for the issue of a residence registration certificate.

#### **6.2.1.2. Single work and residence permit for third countries nationals**

##### Conditions

##### a) Single employment permit

The Employment Service of Slovenia shall issue a consent for employment if the following conditions are met:

- there is no adequate candidate in the register of unemployed persons;
- the employer who employs a foreigner is appropriately registered for the pursuit of an activity within which the foreigner will perform the work;
- the employer is not in the process of liquidation or bankruptcy;
- the employer actively operates, i.e.:
  - at least one person is employed full-time and included in compulsory social security six months before the submission of the application, or
  - the individual (sole proprietor) is included in compulsory social security at least six months before the application, or
  - in each of the last six months prior to the submission of the application, there was an inflow from the pursuit of an activity of at least EUR 10,000 to a transaction account opened in Slovenia;
- the employer has settled all tax liabilities;
- the foreigner fulfills the conditions required by the employer, and
- the employment contract has been signed.

If an employer is registered for less than 6 months, before submitting the application for a single permit, he must invest at least EUR 50,000 in an activity in which the foreigner will perform the work.

b) Single permit for employment, self-employment or work

A single permit for employment, self-employment or work shall be issued to:

- a foreigner who has at least a vocational education or a certificate of a national vocational qualification (NVQ) obtained in Slovenia and has been employed or self-employed in Slovenia for at least 20 months in the last 24 months;
- a foreigner who has been employed or self-employed in Slovenia for at least 30 months in the last three years prior to the submission of the application;
- a foreigner who has obtained at least a higher education in Slovenia in the last two years and who intends to obtain employment or work as a self-employed person;
- a foreigner who has completed a research program in Slovenia over the last two years.

c) EU Blue Card

An EU Blue Card can be obtained if the following conditions are met:

- the foreigner has a valid travel document,
- the foreigner has at least a higher education, which is verified and approved by the Ministry of Education of the Republic of Slovenia;
- a contract of employment has been concluded for at least one year which provides a foreigner with a salary of 1.5 times the average annual gross salary in Slovenia;
- the employer is duly registered for the pursuit of an activity in which the foreigner will work;
- the employer is not in the process of bankruptcy or liquidation;
- the employer has settled all tax liabilities;
- the foreigner fulfills the conditions required by the employer;
- the foreigner has a regulated health insurance;
- the Employment Service of Slovenia issues a consent to the issuance of a Blue Card in which it states that there is no suitable Slovenian candidate for the job in their register of unemployed persons.

d) Single seasonal work permit

A single seasonal work permit can be obtained if the following conditions are met:

- there is no suitable candidate in the register of unemployed persons for the position required;
- the employer or the contracting authority is duly registered, entered in the business register for the pursuit of the activity in which the foreigner will carry out the work, or he/she is entered in the register of agricultural holdings as an owner or a member of a farm;

- the employer or the contracting authority is not in the process of liquidation or bankruptcy;
- the employer or the contracting authority has settled all tax liabilities;
- the annual quota of authorizations for a single permit, which the Slovenian Government may determine as a result of the limitation of the number of foreigners on the labor market, has not yet been achieved;
- an employment contract (employer) or a civil law contract (contracting authority) has been concluded.

If a foreign worker performs seasonal work on the basis of a civil law contract, the Employment Service of Slovenia shall issue his consent without verifying the first condition (whether there are appropriate candidates in the register of unemployed persons).

### Procedure

An application for the issue or renewal of a single permit may be filed by a foreigner or his employer. Regardless of who submits an application, and where, the procedure is conducted by a competent administrative unit that obtains the consent of the Employment Service of the Republic of Slovenia before official authorization.

If a foreigner fulfills all the statutory requirements, the administrative unit shall issue a single permit for residence and work in the form of a card.

### Documentation needed

Requests (forms are published in the Official Gazette of the Republic of Slovenia and on the website of the Employment Service of Slovenia) should be accompanied by the following supporting documents:

- a certified photocopy of a valid passport,
- evidence of adequate health insurance,
- proof of sufficient means of subsistence,
- an employment contract or a job,
- certificate of no criminal record by the competent authority from the country of origin (not older than 3 months),
- other evidence of the fulfillment of the conditions which are defined in the Foreigners Act for the issue of individual types of residence permits; and
- other evidence of compliance with the conditions laid down by the Employment, Self-Employment and Work of Foreigners Act, for the purpose of granting consent.

### **Additional required evidence for obtaining single permits:**

- Single employment permit

The single permit application should be accompanied by the following proof of compliance with the conditions for granting consent:

- a photograph of a foreigner or a reference number from an electronic clipboard of photographs,

- evidence of the appropriate education or professional qualification of a foreigner or the fulfillment of other conditions required by the employer,
- a signed declaration by the employer, whether or not it guarantees accommodation of a foreigner,
- an employer's declaration and proof that he invested at least EUR 50,000 in an activity in which the foreigner would work, before the application for a single permit was made (if the employer is registered less than six months).

b) Single permit for employment, self-employment or work

The single permit application should be accompanied by the following proof of compliance with the conditions for granting consent:

- a photograph of a foreigner or a reference number from an electronic clipboard of photographs;
- proof of at least vocational education or acquired national vocational qualification (NVQ) in Slovenia (when issuing or renewing a permit to a foreigner with at least vocational education or acquired NVQ),
- proof that the foreigner has obtained at least a higher education in the period of the last two years prior to the application in Slovenia (in the case of issuing or renewing a permit to a foreigner with a minimum of higher education);
- proof that the foreigner has completed a research program in Slovenia in the last two years prior to the application in Slovenia - a certificate from the research organization on the completion of the research work (when issuing or extending a permit to a foreigner with a completed research program);
- an employment contract signed by the employer or another proof of the intended employment or self-employment (in the case of issuing or renewing a permit to a foreigner with a completed higher-education degree or a foreigner with a completed research program).

c) EU Blue Card

Application for a Blue Card shall be accompanied by the following additional supporting documents:

- a photograph of a foreigner or a reference number from an electronic clipboard of photographs,
- a contract of employment for the duration of at least one year, signed by the employer, in which the foreigner is guaranteed a salary of at least 1.5 average annual gross earnings in Slovenia (calculated on the basis of the average monthly gross earnings in Slovenia, most recently published in the Official Gazette of the RS),
- evidence of appropriate education (decision or opinion of the competent authority in Slovenia for the recognition or evaluation of education);
- proof of compliance with other conditions required by the employer,

- a signed statement by the employer, whether or not he will provide accommodation to a foreigner.

d) Seasonal work permit

Applications for a single permit must be accompanied by the following additional supporting documents:

- a photograph of a foreigner or a reference number from an electronic clipboard of photographs,
- a contract of employment signed by the employer, or a civil law contract signed by the contracting authority.

Timeframe

1-3 months

Where to apply?

An application for the issue of the first single permit is filed by a foreigner at the competent diplomatic mission or consulate of the Republic of Slovenia abroad, while an employer may submit an application for the issue of the first single permit to the competent diplomatic mission or consulate of the Republic of Slovenia abroad or to the competent administrative unit in Slovenia or via the [eVEM](#) web portal.

Costs (Fees, Prices)

An administrative fee of € 74.50 (€ 4.50 per application and € 70.00 for a single permit) is payable for the issue of a single permit.

A foreigner pays another € 12.00 for the issued card.

### **6.2.2. Important/exceptions**

There is no need for the consent of the Employment Service of Slovenia to issue or renew a single permit for self-employment. A foreigner can become self-employed after one year of continuous legal residence in Slovenia.

The said condition of residence does not apply if the foreigner is entered in the business register as a person who will perform an independent professional activity.

Similarly, the consent of the Employment Service of Slovenia is not required for the issue or extension of a single permit for:

- sports coaches, professional athletes or private workers in sports,
- foreign correspondents or reporters for foreign media,
- foreigners who establish Slovenia's interest in the field of economy, education, science and culture,

- priests or persons engaging in religious activities within a registered religious community, as well as those organizing or conducting charitable and humanitarian activities within a recognized humanitarian organization or a registered religious community.

### **6.2.3. Tips from professionals**

Since regulations are changing rapidly, FDI advisor should check the data on the provided web pages, or directly contact the relevant stakeholders, before giving any information or starting the permit(s) procedures for foreign investors.

## **6.3. PROCEDURES FOR OBTAINING VISA, PERMANENT RESIDENCE PERMIT AND CITIZENSHIP**

This Unit is designed to introduce you the procedures and conditions for obtaining visa, permanent residence permit and Slovenian citizenship.

After acquiring knowledge from this Unit, you will be equipped to teach future FDI advisors to:

- pass the information on procedures of obtaining visa, permanent residence permit and Slovenian citizenship to foreign investors.

### **6.3.1. Overview/theoretical framework**

#### **6.3.1.1. Visa**

Citizens of the EEA Members States and Swiss Confederation may enter the Republic of Slovenia with a valid identity card or passport and do not need an entry permit (visa) or residence permit, regardless of the reason for entry or residence in the Republic of Slovenia (including reasons such as employment, study, self-employment or residence).

A third-country national who wishes to enter and reside in the Republic of Slovenia for tourist, business, personal or other purposes must obtain a visa at the diplomatic mission or consulate of the Republic of Slovenia before entering the country unless he comes from one of the countries for which a visa is not needed (the list of countries is available on the Ministry of Foreign Affairs website) or if they have one of the following permits:

- A holder of a C-type visa issued by one of the Contracting States parties to the Convention implementing the Schengen Agreement may enter the Republic of Slovenia during the period of validity of the visa and reside there, if the total duration of his stay in the Contracting States does not exceed 90 days during a specified period of 180 days, or until the expiry of the visa, if this occurs before the end of the 90-day period.
- A holder of a residence permit issued by one of the Contracting States parties to the Convention implementing the Schengen Agreement may enter the Republic of Slovenia with a residence permit and a valid passport and remain in the country if the total duration of his stay in the territory of all Contracting States, excluding the territory of the Contracting State which has issued the residence permit, shall not exceed 90 days within a specified 180-day period or until the expiry of the residence permit if this occurs before the end of the 90-day period.
- A holder of a long-stay visa (type D) issued by one of the Contracting States parties to the Convention implementing the Schengen Agreement may enter the Republic of Slovenia with a visa and valid passport and remain in the country if the total duration of his stay in the territory of all countries except in the territory of the Contracting States which has issued the residence permit, shall not exceed 90 days within a

specified 180-day period or until the expiry of the residence permit if this occurs before the end of the 90-day period.

Types of visas are the following:

1. Airport transit visa (Visa-A)
2. Short-stay visa (Visa-C) can be acquired for tourist, business, personal or other purposes.
3. Long-stay visa (Visa-D) can be acquired for:
  - family members of a EU citizen or Slovenian national (for the purposes of family reunion);
  - diplomats, administrative or technical staff and their family members;
  - participants in courses or other forms of education (for a period from 3 months to 1 year at the most);
  - foreign students and employees in higher education;
  - sports trainers, professional athletes or private sports operators aiming to conclude an employment or work contract with a club or sports organization with head office in the Republic of Slovenia;
  - foreign media reporters or correspondents;
  - priests and other persons in clerical profession from registered religious communities.

Procedure:

Visas are issued by diplomatic missions or consular offices of the Republic of Slovenia abroad. They can be issued by the diplomatic mission or consular office of another country with which the Republic of Slovenia has signed a visa issuing agreement. An application for a visa is submitted on the prescribed [form](#) up to 3 months prior to the intended travel. In the case that foreign nationals have collective travel document (e.g. mother and child), each of them shall apply for a visa on a separate form.

Exceptionally, a visa may be issued by the authorities competent to monitor the border crossing, if the foreigner was not able to pre-apply for a visa at a diplomatic mission or consular office of the Republic of Slovenia. In that case the foreigner needs to present documents proving unpredictable and unavoidable reasons for entering the Republic of Slovenia.

Documentation needed:

For obtaining a visa, application form and supporting documents need to be presented.

Supporting documents for **Short-stay visa (Visa-C)** application should contain evidence of:

- the purpose of intended journey (for business visit invitation of the company, ticket, etc.),
- proof of accommodation,
- proof of health insurance,
- proof of sufficient funds for the duration of the stay and for return to the domestic country,

- proof of intent to leave the territory of the EU member states before the expiry of the visa you applied for (return ticket, proof of employment, etc.).

Supporting documents for **Long-stay visa (Visa-D)** application should contain:

- a valid travel document,
- travel health insurance covering at least urgent health services in the Republic of Slovenia,
- proof of sufficient monthly means, at least equal to the basic minimal income in Slovenia.
- individual need to justify one of the purposes necessary for issuing Visa-D.

Time frame:

Visa application should be filed at least 15 calendar days before entering the country. An application filed less than 15 calendar days before the intended departure may be accepted, but there is no guarantee that the final decision will be made before the intended date of departure. A visa cannot be filed earlier than three months before entering a country.

Where to apply:

Individuals are required to obtain a visa at a diplomatic or consular representation of the Republic of Slovenia abroad, prior to entering Slovenia.

Fees:

The application form is free of charge, taxes of the procedure depend on the diplomatic missions or consular offices of the Republic of Slovenia abroad.

### 6.3.1.2. Permanent residence permit

A foreigner who wishes to reside in the Republic of Slovenia for a longer period of time than is possible on the basis of a visa, or who wishes to enter and reside in the Republic of Slovenia for reasons other than that on the basis of a visa, must have a residence permit.

A residence permit means an authorization to enter the Republic of Slovenia and stay for a fixed period of time and for a specific purpose or for permanent residence.

A temporary residence permit is issued for a specific purpose and for a fixed period of time.

A permanent residence permit is issued without restrictions on the duration and purpose of staying in the Republic of Slovenia.

Conditions:

Permanent resident permit can be acquired if:

- the individual has legally been staying in Slovenia (on the basis of temporary residence permit) for the last five years;
- if their absences were shorter than six months and, if combined, they did not exceed ten months in a five-year period;
- the individual holds a EU Blue Card and has been residing in the EU continuously and legally for five years (and only in Slovenia for the last two years before applying).

Before the expiry of the five-year period (if other conditions are fulfilled) permanent residence can be issued to:

- a foreigner of Slovenian origin,
- a foreigner whose residence in Slovenia is in the interest of the Republic of Slovenia,
- a family member of an EEA citizen possessing a valid permanent residence permit in Slovenia, and a family member of a Slovenian citizen,
- a foreigner who used to have a permanent residence permit in Slovenia but it expired.

### Procedure:

The process in most cases begins at the Embassy of Slovenia in the country of foreigners' residence.

#### Step 1: Obtaining temporary residence (and work) permit

The temporary residence permit can be obtained on the basis of work, study, family relations or other reasons (please see unit 6.1 and 6.2)

#### Step 2: Renewing temporary permit

Temporary permits are usually valid for one year and must be renewed prior to expiration date at the local Administrative Unit.

Keep in mind that here are no requirements to speak Slovene or to demonstrate knowledge of the history and/or culture in order to obtain a temporary residence permit.

#### Step 3: Application for permanent residence permit

After five years of living in Slovenia on a basis of temporary residence permit, foreigner has the right to apply for permanent residency.

In 8 days after obtaining permanent residence in Slovenia a person must register himself on a permanent address in administrative unit.

After obtaining a permanent residence permit in Slovenia, foreigners have the same rights as a citizen of Slovenia, but he can't obtain real estate as a natural person and he doesn't have the right to vote.

Where to apply:

The application for a permanent residence permit must be submitted at an administrative unit in the area of individual's residence.

#### 6.3.1.4. Obtaining Slovene citizenship

Slovenian citizenship may be acquired by a foreigner:

- if at least one of his parents is a Slovenian citizen,
- by birth, if the parents are unknown or have no citizenship or if their nationality is unknown,
- if he fulfills the conditions and applies for citizenship (the procedure is called naturalization).

Conditions:

- reached the age of 18,
- lost previous citizenship,
- actual residence in Slovenia for 10 years, of which uninterruptedly for the last 5 years before the application was submitted and the status of a foreigner was regulated,
- guaranteed means of subsistence in the amount of basic minimum income,
- mastering the Slovenian language for the needs of everyday communication,
- the person applying has not been sentenced to an unconditional imprisonment sentence of more than three months or that a conditional sentence has not been convicted to a prison sentence with a probationary period of more than one year,
- that no prohibition on residence in Slovenia was imposed on the person,
- the admission of a person to citizenship does not pose a threat to the public order, security or defense of the state,
- the candidate settled his tax liabilities,
- oath of respect for the free democratic constitutional order.

*Certain categories of persons have facilitated conditions:*

- Slovenian emigrants and their descendants up to the fourth generation (one year of actual residence in Slovenia, without the condition of dismissal from previous citizenship);
- persons who already had Slovene citizenship but lost it on the basis of dismissal or relinquishing (six months of actual residence in Slovenia, without the condition of dismissal from previous citizenship),
- persons married to a Slovenian citizen (one year of actual residence in Slovenia, at least three years of marriage, possible retraction of the conditions of dismissal and residence);

- persons born in Slovenia and living in Slovenia all their lives (without the conditions of dismissal from previous citizenship, secured means for subsistence and mastery of the Slovene language),
- persons under international protection (five years of actual residence in Slovenia, without the condition of dismissal from previous citizenship),
- stateless persons (five years of actual residence in Slovenia, without the condition of dismissal from previous citizenship),
- persons who successfully completed at least a higher-education program in Slovenia (seven years of actual residence in Slovenia, of which one year continuously before the application was submitted),

*Special conditions also apply to minors:*

- if the father and mother obtain Slovenian citizenship by naturalization, their minor child also obtains at their request;
- if one of the parents obtains Slovenian citizenship by naturalization, his or her minor child also obtains if this parent asks for it and if the child lives with him/her for at least one year continuously before applying and has the regulated status of a foreigner;
- if a child born in Slovenia has not completed one year of age, he/she obtains Slovenian citizenship at the request of his/her parent who has obtained Slovenian citizenship through naturalization;
- if one of the parents obtains Slovenian citizenship after an extraordinary naturalization for state reasons, his minor child can also obtain it if the parent asks for this;
- a child who does not have parents or his parents were deprived of their parental rights or business capacity, and if he lives in Slovenia since his birth, he obtains Slovenian citizenship at the request of his guardian, and if the ministry responsible for family and social affairs gives consent to the child's admission to Slovenian citizenship.

Every minor child who has reached the age of 14 must give a written consent to the acceptance of Slovenian citizenship. Regardless of the above bases, according to which a minor child has obtained Slovenian citizenship, the child always retains his original citizenship.

#### Required documentation:

The application must be submitted on the prescribed form and enclosed with:

- a CV and
- evidence of compliance with the statutory conditions. The fulfillment of certain conditions is proved by the foreigner himself with the documents submitted, while the other conditions are determined by the administrative unit ex officio. Check the list of necessary documents on the website of the Ministry of Public Administration ([Instructions for submission of applications](#)).

#### Where to apply?

An foreigner's application is submitted on a prescribed form to a competent administrative unit.

#### Costs (Fees, Prices):

EUR 194.80.

### **6.3.2 Important/ exceptions**

Based on the visa, a foreigner cannot work on the Slovenian territory.

A foreigner who resides in the Republic of Slovenia with a visa, as a rule, cannot have his visa extended. Exceptionally, the validity and / or duration of the residence issued on the basis of issued visas can be extended due to force majeure, humanitarian or serious personal reasons. The request for extension shall be submitted to the police department / station, according to the place of residence of the foreigner before the expiry of the current visa. The request is decided upon the Ministry of Interior. By making the decision to extend the visa, a foreigner can stay on the Slovenian territory.

In special cases, Slovenian citizenship can be acquired by a foreigner extraordinarily, if this is of benefit to the State for scientific, economic, cultural, national or similar reasons, provided that he actually lives in Slovenia for at least a year before submitting the application and has the status of a foreigner, while he also needs to fulfil certain additional conditions.

Exceptionally, a foreigner can acquire Slovenian citizenship even if he does not fulfill the condition of one-year uninterrupted residence in Slovenia and the condition of the regulated status of a foreigner, taking into account his exceptional contribution to development and to increase the international reputation or recognition of Slovenia.

### **6.3.3 Tips from professionals**

FDI advisors should check the resent data on relevant authorities' webpages or directly contact the responsible office, before giving any information or starting the permit application procedure for the foreign investor.

## **6.4. CONDITIONS AND PROCEDURES FOR FAMILY REUNIFICATION IN SLOVENIA**

This Unit is designed to introduce the conditions which must be fulfilled by foreigner in order for family reunification in Croatia.

After acquiring knowledge from this Unit, you will be qualified to teach future FDI advisors to:

- identify differences in the procedure of family reunification in Slovenia.
- inform and lead foreign nationals through the procedure of obtaining residence permit with the aim of family reunification.

### **6.4.1. Overview/theoretical framework**

A foreigner who resides in the Republic of Slovenia on the basis of a permanent residence permit and a foreigner who resides in the Republic of Slovenia for the last year on the basis of a temporary residence permit and has a temporary residence permit issued with a validity of at least one year shall, subject to the conditions and in accordance with the Foreigners Act, be recognized the right to join, preserve and regain the integrity of the family with immediate family members who are foreigners.

Without restrictions on the length of the foreigner's stay in the Republic of Slovenia and the validity of his permit, a foreigner who has a temporary residence permit for the purpose of performing a research work and a foreigner with a temporary residence permit may unite with his immediate family members, if this is in the interests of the Republic of Slovenia, to be decided by the authority in charge of issuing licenses on the basis of the opinion of the competent ministry.

The following are considered as the immediate family members of a foreigner, according to the Foreigners Act:

- spouse,
- minor unmarried children of the foreigner;
- minor unmarried children of the spouse;
- parents of a minor foreigner;
- adult unmarried descendants and parents of a foreigner or a spouse which the foreigner or the spouse is obliged to support by the law of the country of which he is a citizen.

In exceptional cases, the competent authority may, at its own discretion, regard another relative of a foreigner as a close family member if special circumstances speak in favor of family reunification in the Republic of Slovenia. In the case of a polygamous marriage, a residence permit for family reunification can only be issued and extended to one spouse.

### Procedure:

A residence permit for the purpose of family reunification is issued and renewed at the request of a foreigner who must provide evidence of sufficient means of subsistence for those close family members who intend to reside in the country.

A close family member may be granted a temporary residence permit for the purpose of family reunification if the foreigner with whom the family member joins is issued a temporary residence permit with a validity period of less than one year.

A temporary residence permit for the purpose of family reunification shall be granted to a family member of a foreigner who holds a temporary residence permit, with validity that is equal to that of his authorization, but not longer than one year, and shall be extended for the same period of time as is the validity of his temporary residence permit, but not longer than two years. A temporary residence permit is granted to a family member of a foreigner who has a permanent residence permit in the Republic of Slovenia with a validity of one year, and can be extended with a validity of up to two years.

The immediate family members of a foreigner, if they fulfill the conditions laid down by law, are granted a residence permit as an unbound authorization.

A competent authority may extend the residence permit to the immediate family member of the foreigner even if the foreigner died or if the marriage ended, but lasted for at least three years in the Republic of Slovenia. That authorization may be renewed only once, with a validity period of up to one year.

### Conditions:

Foreigner can obtain a temporary residence permit for his family members, if:

- 1) he holds a permanent residence permit in Slovenia,
- 2) he has lived in Slovenia for at least one year on the basis of temporary residence permit (which is valid for at least for another year), except in cases where his temporary residence permit is issued for the purpose of performing seasonal work),
- 3) he holds a EU Blue Card or have temporary residence permit for research and higher education purposes,
- 4) he enjoys subsidiary protection in Slovenia (with some exceptions).

### Documentation needed:

To acquire permit for a family member, a foreigner must have:

- proof of existence of a family relationship (with the original marriage certificate, original children's birth certificate, etc.). If the documents are not in the official international form, they must be translated into Slovenian language and verified,
- fulfilled general conditions for family members (which are the same as for the temporary residence permit):
  - A valid passport,
  - health insurance covering at least urgent health care services in Slovenia,
  - sufficient monthly means at least equal to the basic minimal income in Slovenia,

- a police clearance certificate (not older than three months) from your home country, with a verified translation in Slovenian language.
- formal photography.
- Pri diplomatskem predstavništvu ali konzulatu Republike Slovenije v tujini mora družinski član podati tudi dva prstna odtisa za njihov digitalni zajem.

#### Where to apply?

The application can be filed by foreigners at the Slovenian diplomatic or consular representations abroad or at the Administrative Unit.

#### **6.4.2. Important/exceptions**

If foreign national's request is accompanied with document from foreign country, it should be translated on Slovenian language and verified by authorised translator.

#### RESIDENCE PERMITS FOR CHILDREN

Children can obtain residence permits and be ensured by social security based on one parents' temporary residence permit. To get the temporary residence permit, they have to be enrolled in school (if they are the age to be able to enter obligatory school education) and need to present proof of being accepted into school.

#### **6.4.3. Tips from professionals**

Since conditions are changing rapidly, FDI advisor should check the valid data on web pages, or direct contact the responsible authority (Ministry of Interior or consulate) before giving foreinger investor any information or starting the family reunification process.

## 6.5. ADDITIONAL READING

Employment service of Slovenia. *Working and living conditions in Slovenia* (online)

Available on:

[http://english.ess.gov.si/eures/eures\\_job\\_seekers/working\\_and\\_living\\_conditions\\_in\\_slovenia](http://english.ess.gov.si/eures/eures_job_seekers/working_and_living_conditions_in_slovenia) (27 December 2018.)

Republic of Slovenia, Ministry of foreign Affairs: *Entry and residence in Slovenia* (online).

Available on: [http://www.mzz.gov.si/en/entry\\_and\\_residence/](http://www.mzz.gov.si/en/entry_and_residence/) (27 December 2018.)

Infotujci.si: *Information for Foreigners* (online). Available on: <https://infotujci.si/> (27 December 2018.)

[Foreigners Act](#) (ZTuj-2)

[Employment and Work of Foreigners Act](#) (ZZDT-1).

Employment office of Slovenia: *Types of approvals for single residence and work permits.*

Available on:

[https://www.ess.gov.si/delodajalci/zaposlovanje\\_in\\_delo\\_tujcev/vrste\\_soglasij\\_in\\_pogoji](https://www.ess.gov.si/delodajalci/zaposlovanje_in_delo_tujcev/vrste_soglasij_in_pogoji) (27 December 2018)

Ministry of the interior. *Information for foreigners.* Available on:

<https://infotujci.si/en/third-country-nationals/purposes-of-residence/> (27 December 2018)

Ministry of foreign affairs. *Foreign policy and international law.* Available on:

[http://www.mzz.gov.si/en/foreign\\_policy\\_and\\_international\\_law/](http://www.mzz.gov.si/en/foreign_policy_and_international_law/) (27 December 2018)

European Commission. *Migration and Home Affairs.* Available on: [https://ec.europa.eu/home-affairs/index\\_en](https://ec.europa.eu/home-affairs/index_en) (27 December 2018)

Ministry of the Interior: *Visa - the most common questions* (online). Available on:

[http://www.mzz.gov.si/si/vstop\\_in\\_prebivanje/najpogostejsa\\_vprasanja/](http://www.mzz.gov.si/si/vstop_in_prebivanje/najpogostejsa_vprasanja/) (23 October 2018)

Ministrstvo za notranje zadeve: *Seznam držav, katerih državljani ne potrebujejo vizuma*

Ministry of the Interior: *List of countries whose citizens do not need a visa* (online). Available on:

[http://www.mzz.gov.si/fileadmin/pageuploads/konzulara/Tujci\\_vstop\\_v\\_Slovenijo\\_brez\\_vizumov\\_slo.pdf](http://www.mzz.gov.si/fileadmin/pageuploads/konzulara/Tujci_vstop_v_Slovenijo_brez_vizumov_slo.pdf) (22 October 2018)

Ministry of the Interior: *Permanent residence permit* (online). Available on:

[http://www.mnz.gov.si/mnz\\_za\\_vas/tujci\\_v\\_sloveniji/bivanje\\_drzavljanov\\_tretjih\\_drzav\\_v\\_sloveniji/dovoljenje\\_za\\_stalno\\_prebivanje/](http://www.mnz.gov.si/mnz_za_vas/tujci_v_sloveniji/bivanje_drzavljanov_tretjih_drzav_v_sloveniji/dovoljenje_za_stalno_prebivanje/) (22 October 2018)

Ministry of the Interior: *Citizenship* (online). Available on:

[http://www.mnz.gov.si/mnz\\_za\\_vas/tujci\\_v\\_sloveniji/drzavljanstvo/](http://www.mnz.gov.si/mnz_za_vas/tujci_v_sloveniji/drzavljanstvo/) (23 October 2018)

Ministry of Public Administration - e-administration portal: *Application for citizenship of the Republic of Slovenia (regular naturalization) with instructions* (online). Available on: <https://e-uprava.gov.si/podrocja/vloge/vloga.html?id=2544> (23 October 2018)

Ministry of the Interior: Family reunification (online). Available on: [http://www.mnz.gov.si/mnz\\_za\\_vas/tujci\\_v\\_sloveniji/bivanje\\_drzavljanov\\_tretjih\\_drzav\\_v\\_sloveniji/zdruzitev\\_druzine/](http://www.mnz.gov.si/mnz_za_vas/tujci_v_sloveniji/bivanje_drzavljanov_tretjih_drzav_v_sloveniji/zdruzitev_druzine/) (26 October 2018)

## 6.6. QUIZ AND EXERCISES

### Quiz

1. Two main categories of foreign citizens based on their rights in Republic of Slovenia are:
  - a) Foreigners from EEA - foreigners from all other countries
  - b) Citizens from EU – citizens of all other countries
  - c) Foreigners from EU and Switzerland – third country nationals
  - d) Citizens of EEA and Switzerland - third country nationals
  
2. When does a foreigner from Greece need to apply for residence permit?
  - a) upon the entry into Slovenia
  - b) before the 4<sup>th</sup> month of his stay in the country starts
  - c) after staying in Slovenia for up to 180 days
  - d) never
  
3. Nationals of which states cannot work and provide services in Slovenia without work and residence permit?
  - a) nationals of EEA member states
  - b) nationals of Swiss Confederation
  - c) Slovenian citizens family members who are nationals of EEA member states
  - d) third-country nationals
  
4. The EU Blue Card is issued for:
  - a) temporary residence and work in Slovenia for highly-qualified third-country nationals
  - b) permanent residence and work in Slovenia for highly-qualified worker
  - c) tourist (short-term stay) for highly-qualified worker
  - d) short-term Visa for highly-qualified worker
  
5. Who can submit request for unique residence and work permit?
  - a) Foreigner or employer on his behalf
  - b) Employer on behalf of the foreigner
  - c) Employment Service on behalf of the foreigner
  - d) Foreigner
  
6. For how long does a citizen of the EEA or Switzerland obtain a residence certificate if he meets the conditions for issuing the certificate?
  - a) The validity of the certificate is five years.
  - b) The validity of the certificate is three years.
  - c) The validity of the certificate is five years or for the period of intended residence in the Republic of Slovenia, if the latter is shorter.

- d) The validity of the certificate is six years or for the intended period of residence in the Republic of Slovenia, if the latter is shorter.
7. Which of the following is not a condition for obtaining a single work permit?
- a) There is no adequate candidate in the register of unemployed persons.
  - b) The employer has settled all tax liabilities.
  - c) Certified attestation of education by the ministry responsible for education.
  - d) The employer is not in the process of liquidation or bankruptcy.
8. Which of the following persons is not issued a single permit for employment, self-employment or work?
- a) A foreigner who was employed or self-employed in Slovenia in the last three months prior to the application.
  - b) A foreigner who has obtained at least a higher education in Slovenia in the period of the last two years and who intends to obtain employment or work as a self-employed person.
  - c) A foreigner who has completed a research program in Slovenia over the last two years.
  - d) A foreigner who has at least vocational education or a certificate of a national vocational qualification (NVQ) obtained in Slovenia and has been employed or self-employed in Slovenia for at least 20 months in the last 24 months.
9. Which of the other conditions must a foreigner fulfil in order to obtain an EU Blue Card?
- a) A foreigner must have a minimum of higher education and a contract of employment for at least one year which provides a foreigner with a salary of 1.5 times the average annual gross earnings in Slovenia, and his employer must have all tax liabilities settled.
  - b) A foreigner must have at least a university degree and a contract of employment for at least one year, providing a foreigner with a salary equal to 2-times the average annual gross salary in Slovenia, and his employer must have all tax liabilities settled.
  - c) A foreigner must have at least a higher education, and his employer must have all the tax liabilities settled and must be granted license by the Employment Service of Slovenia for the pursuit of his activity.
  - d) A foreigner must have a minimum of higher education, while in the register of unemployed persons there must not be more than 10 eligible candidates for that position, while his employer must have all tax liabilities settled.
10. Who needs to obtain C-type visa to enter the territory of Republic of Slovenia?
- a) A national of a third country who wishes to enter and reside in the Republic of Slovenia for the purposes of a tourist, business, personal or other type of visit for more than 90 days
  - b) A national of a third country who wishes to enter and reside in the Republic of Slovenia for the purposes of a tourist, business, personal or other type of visit, unless they come from a group of countries which do not require a visa or if they are already in possession of a C- or D-type visa, issued by one of the Contracting Parties to the Convention implementing the Schengen Agreement.

- c) A national of a third country who is in possession of a C- or D-type visa, issued by one of the Contracting Parties to the Convention implementing the Schengen Agreement.
  - d) A national of a third country who wishes to enter and reside in the Republic of Slovenia for the purposes of a tourist, business, personal or other type of visit, unless they come from a group of countries which do not require a visa.
11. Where and when is it necessary to apply for a C-type visa?
- a) Application for a C-type visa should be filed at diplomatic missions or consular offices of the Republic of Slovenia abroad up to 3 months and no later than 15 days prior to the intended travel.
  - b) Application for a C-type visa should be filed at diplomatic missions or consular offices of the Republic of Slovenia abroad up to 3 months and no later than 5 days prior to the intended travel.
  - c) Application for a C-type visa should be filed at diplomatic missions of the Republic of Slovenia abroad up to 1 month and no later than 15 days prior to the intended travel.
  - d) Application for a C-type visa should be filed at consular offices of the Republic of Slovenia abroad up to 3 months and no later than 10 days prior to the intended travel.
12. Permanent residence may be granted to a foreigner who at the time of submitting the application in host country has uninterrupted period of temporary residence for:
- a) Three years.
  - b) Five years.
  - c) Seven years.
  - d) Ten years.
13. It is considered that the foreigner resided continuously in host country...
- a) ...if his absences were shorter than six months and, if combined, they did not exceed ten months in a five-year period.
  - b) ...if his absences were shorter than twelve months in a five-year period.
  - c) ...if his absences were shorter than six months and, if combined, they did not exceed twelve months in a five-year period.
  - d) ...if his absences were all shorter than three months in a five-year period
14. Which of the following is not a condition for acquiring Slovenian citizenship?
- a) Dismissal from previous citizenship.
  - b) Actual residence in Slovenia for a period of 10 years, of which uninterruptedly for the last 5 years before the application was submitted, and a regulated status of a foreigner.
  - c) Knowledge of the Slovenian language for the needs of everyday communication.
  - d) Education of at least level V by SOK.
15. Citizenship by naturalization in the host country cannot be acquired on the grounds of:
- a) residence in the host country

- b) marriage or life partnership with the citizen of the host country
- c) real estate possession in the host country
- d) being born in the host country

16. Which of the following is not one of the immediate family members for whom temporary residence permit can be obtained in Slovenia with a view to reunite a family?

- a) Spouse.
- b) Adult descendants of the foreigner with their own income.
- c) Minor unmarried children of the spouse.
- d) Adults unmarried descendants and parents of a foreigner or spouse whom the foreigner or spouse is obliged to support according to the law of the State of which he is a national.

17. Who of the following can not obtain a temporary permit for a family member? A foreigner who...

- a) ... holds a EU Blue Card or have temporary residence permit for research and higher education purposes.
- b) ... holds a permanent residence permit in Slovenia
- c) ... has lived in Slovenia for at least one year on the basis of temporary residence permit (which is valid for at least for another year), except in cases where his temporary residence permit is issued for the purpose of performing seasonal work).
- d) .. resides in Slovenia on the basis of an education license and does not have his own income.

18. Where should one apply for a temporary residence of a close family member?

- a) At the diplomatic consular mission of the Republic of Slovenia abroad or at the competent administrative unit in the Republic of Slovenia.
- b) At the diplomatic consular mission of the Republic of Slovenia abroad.
- c) At a competent police station in the Republic of Slovenia.
- d) At the diplomatic and consular mission of the Republic of Slovenia abroad or at the competent police station in the Republic of Slovenia.

### Exercises:

#### Exercise 1:

Help foreign citizen member of EEA whose intention is to stay more than 3 months in the host country to apply for temporary residence permit. Find a Form to be filled and attach the necessary documentation.

Write the answer:

Exercise 2:

1. Complete the residence application for a citizen of the EEA or Switzerland with imaginary information.

Attach a completed application.

Write the answer:

Exercise 3:

What documentation must the foreigner submit, and where to, in order for him to obtain the first single work permit?

Write the answer:

Exercise 4:

Help citizen from third country to apply for visa C so he can arrange the start of a business in host country.

What Form foreign investor needs to fill in and which documents he needs to attach?

Write the answer:

Exercise 5:

Which documents need to be enclosed to the application for the issue of a temporary permit for a family member with a view to family reunification?

Write your answer:

## Module 7 – INVESTMENT IN REAL ESTATE

The module is intended to familiarize participants with the main information in the field of real estate investment. You will get familiarized with the essential concepts and basic national legislation.

With the knowledge gained through the module, you will be able to transfer to your FDI students:

- Fundamental concepts and appropriate terminology in the field of investment in real estate;
- Ways to develop strategies for investing in real estate;
- Knowledge of the base of real estate and real estate contracts;
- Fundamentals of investment and financing;
- Ways to identify risks that accompany investments in real estate;
- Knowledge of the fundamentals of the real estate market and its functioning.

### Glossary:

**Agent** – An authorized person that manages or transacts business for someone else.

**Buyer Agent** – An agent who represents a buyer in a real estate transaction.

**Dual Agent** – An agent that represents both parties in a transaction.

**Listing Agent** – An agent representing the seller.

**Selling Agent** – The agent that finds a buyer. A selling agent may be representing the buyer or the seller.

**Amenities** – The features that may enhance the value of a property.

**Amortize** – To pay a debt in periodical amounts until the total, which may include any interest, is paid.

**Appraisal** – A qualified person's/organisation's opinion of the value of a property.

**Appreciation** – The value increase of a property.

**Assessment/ Assessed Value** – Official valuation of a property for tax schemes.

**Balloon Payment/Mortgage**– A mortgage with monthly payments often based on an amortisation schedule.

**Bankruptcy** – Declare legally unable to pay your debts. Bankruptcy can impact negatively your credit and ability to borrow money.

**Broker** – An independent business party/person that sets real estate office policies.

**Closing** – The point at which real estate formally changes ownership. Closing costs are fees paid for services associated with a home's closing such as title insurance, surveying fees, recording fees, deeds, and affidavits.

**Competitive Market Analysis** – A method of determining the value of a property by comparing the prices paid for similar properties.

**Commission** – Compensation paid to a real estate agent (usually by the seller) for services rendered in connection with the sale, exchange, or lease of a property.

**Condominium (Condo)** – Individual ownership of a part of a building, with common areas shared by all owners.

**Conventional Loan** – A fixed-rate, fixed-term loan not insured by the government.

**Co-operative (Co-op)** – An arrangement in which a corporation made up of residents owns a building. The buyer holds a proprietary lease, rather than real property, and a corresponding number of shares in the corporation.

**Counter Offer** – A new offer as to price, terms, and conditions, made in response to a prior, unacceptable offer. A counteroffer terminates an original proposal.

**Deed** – A legal document that transfers ownership of a property from one party to another.

**Down Payment**– A percentage of the purchase price the buyer pays in cash.

**Equity**– The difference between the current market value of a property and the claims—such as the unpaid portion of a mortgage—that exist against it.

**Exclusive Listing**– A written agreement in which the seller appoints an agent to market the property for a specific period.

**Forbearance Agreement** – An agreement between a mortgage holder and a borrower that specifies a loan payment plan and halts the foreclosure action if the borrower meets the requirements and the agreement terms.

**Foreclosure**– The legal process through which a property that is mortgaged as security for a loan may be sold to pay a borrower's loan.

**Guaranty** – A pledge made by one person (the guarantor) to ensure that another person (the obligor) will fulfil an obligation to a third party (the obligee).

**Inspection** – The examination of a property by the buyer, agent, title insurance company, or another interested party.

**Lien** – A charge or claim by one party on the property of another as security for the payment of a debt.

**Listing** – A written agreement between a property owner and a real estate broker authorising the broker to find a buyer.

**Market Value**– The price a property will have on the open market.

**Mortgage** – A legal document pledging property as security for the payment of a loan. It gives the lender the right to sell the borrower's property and use the money collected to pay off the debt if the borrower defaults on the loan.

**Mortgage Insurance** – An insurance plan that protects the lender if the borrower does not repay a loan.

**Notice of Default** – An official notice filed and recorded by a designated trustee at the request of a lender indicating lender has commenced a foreclosure action.

**Offer** – A proposal to purchase a property at a particularised price and terms.

**Open House** – A standard real estate practice of showing "For Sale" houses to the public during established hours.

**Owner of Record**– The person named in the public record as the owner of a property or mortgage.

**Qualified Buyer** – A buyer who has demonstrated the financial ability to afford the asking price of a home. Prequalifying with a lender can expedite the home buying transaction.

**Real estate** – land and any additions/improvements, for example, buildings, sidewalks etc. considered permanently attached to the land.

**Short Sale**– Sell a home through a negotiation process with the bank or lender, who agree to accept less than the full debt amount, so that the debt can be 'paid off' short.

**Title** – Lawful ownership of property.

**Title Insurance** – An insurance policy that protects against losses arising from title defects such as forged or misfiled documents.

**Walk-Through** – A final inspection of a property before it changes ownership.

## **7.1. RELEVANT LEGISLATION IN THE FIELD OF REAL ESTATE**

This chapter is intended to inform you about the relevant legislation in the field of real estate in Slovenia.

The basic legislation in the field of real estate in Slovenia includes the Substantive Law Code and the other regulations that are complementary to the Code: The Land Register Act, the Real Estates Registration Act and the Regulation on the Registry of Non-Proprietary Liens over Seized Property.

### **7.1.1. Theoretical framework**

Property rights are determined by the Substantive Law Code. As a property, it defines a "spatially measured part of the earth's surface, together with all the components." Real estate therefore represents land and things that are permanently and firmly connected to them.

The forms of ownership over a property are:

- Property right over a property

Ownership right means that the owner may own, use and consume the thing (real estate) in the most extensive way and to dispose of it, insofar as he is not limited in this right by the rights of others or by law.

- Possession, economic property and other forms of use of real estate

It is about possessing and using real estate, while the owner is someone else (the person who is registered in the land register is not the same as the one who uses and manages the property). It is a non-proprietary owner, either a tenant, a holder, etc.

- Lease and rental agreement

With the lease agreement agricultural land is leased. The time for which the land is leased must correspond to the purpose of the land and lasts from 10 to 25 years.

Lease must be differentiated from renting. Building land is rented, not agricultural land.

The tenant/renter and lessee have the right to use and enjoy the object of renting or leasing, but they do not have the right to possess it freely (for example, dispose of it).

Regardless of the fact of renting or leasing, the owner of the property may sell, transfer, donate or burden with a mortgage, taking into account the information provided by interested parties.

- Joint ownership and common property

Common property denotes the possession of several persons over a certain undivided property, where their shares are not determined. The joint owners possess the property jointly.

Joint ownership denotes the ownership of several persons over an undivided item (e.g. real estate), where their shares are determined, but if they are not determined, the shares are deemed to be equal. For example, a person is a co-owner of a real estate, if his share is 1/3, because he, together with his siblings and one of his parents, inherited after the other parent. This is usually the result of a legal inheritance. The joint ownership can be broken down so that the thing is sold and the purchase price is distributed among the co-owners. All owners are required to register as owners of the property.

Each co-owner has the right to own a property together with others, all of whom can use it (for example, dispose of it), wherein a co-owner needs consent of others to be able to use the property. Each co-owner has the right to propose the division of undivided item by either selling the item and dividing the purchase price among themselves, or if one of the co-owners buys the shares of others at a certain proportional price.

- Floor ownership

Floor ownership designates the property of an individual part of a building and the joint ownership of common parts, i.e., possession over a dwelling and joint ownership over common parts. In the case of floor ownership, no one is entitled to demand the sharing of joint ownership.

The next fundamental principle of real estate in the Slovenian legal system is the principle of trust in the land register. The land register is intended for entering and public publication of rights to real estate. All immovables and rights of substantive law that are related to it must be entered in the land register, i.e. property right over real-estate, easement, building right, land debt, etc., as well as obligations for which the entry is prescribed by law. This principle implies the principle of publicity - all data entered in the land registry is deemed to be true, and no one may be harmed by having trusted the information recorded therein. The owner of the property is therefore the one who is entered in the land register as the owner.

In the past, the land register was available in physical form, but since 2001 it has been used in electronic form.

The land register is run by the court in cadastral municipalities and consists of a general ledger and a collection of documents. The basis for the management of the land register is the cadastre. A cadastre means a record showing the position, the extent and the area of the land. The base unit is a real estate (plot), previously it was a land registry entry (each property was entered into its own land register entry).

### **7.1.2. Important and exceptions**

Real estate, such as roads, bridges, sidewalks, etc., are called public goods, because they can be used by everyone under the same conditions. The law determines which things are public goods and what are the conditions for their use, but it is possible to acquire a special right to use them, under the conditions laid down by law. However, the state or a local self-government, as the owner of a property, can sell it or rent it. Lease agreements, construction agreements (unless if for this particular form of relationship this is prescribed by the Land Register Act), etc., are not entered in the land register because it is an obligational relationship between the parties. In the event of a dispute concerning such obligations, either the parties agree on their own accord or leave the decision to the court. However, the bona fide buyer receives greater protection.

By checking the land register, we can find out who owns the property we are checking (the checking does not require the disclosure of a legal interest, as anyone can check it), and we can check if it is burdened with any other substantive or binding right that is registered into the land register in accordance with the law.

Interesting:

The land register in Slovenia is in fact the remnant of the land register of a similar record from the times of the Habsburg Monarchy. It was started by surveying the land (and the population) primarily for tax purposes, that is to say, this development extends from the property books, through the Terezian, Josephinian and Franciscan cadastre, which eventually turned into a land register similar to that we know today.

Through the adoption of the Land Register Act, which was revised several times, in line with changes in the regulation (in particular, the transition to common property in Yugoslavia), to the present Land Register Act (and relevant laws concerning denationalization), the continuity of records in Land Register was preserved. The current owners of a real estate can therefore check the Land Register and verify who was the previous owner of the property, and who is currently registered as the owner. All denationalization and privatization procedures have not yet been completed, but even if they are, we can still find the country as the stated owner of certain real estate. Checking the land register is recommended, also for anyone who buys a property, to make sure that it is really free of liens and to act (in particular, they require an appropriate price) in the light of such burdens, if they exist. Through the land register, we can follow the changes in certain land, and we can correct the mistakes, and in general, we can also verify who acquired a right over a real estate and who gave it up.

### **7.1.3. Tips from professionals**

In order to avoid any legal proceedings, it is important that an adviser to a foreign investor:

1. Knows the relevant national legislation,
2. Prepares and inspects the necessary documentation before advising the investor on investment in the selected real estate,
3. Keeps copies of the relevant documentation;
4. Does not recommend investing in real estate, for which all legal documents are not regulated.

## 7.2. OBTAINING PROPERTY

In this chapter we will learn about ways of acquiring property rights over real estate and taxes related to a transfer of property.

### 7.2.1. Theoretical framework

The right to ownership of immovable property can be obtained in several ways:

- By legal transaction which can be based on a sales or gift contract or contract of exchange. For real estate, a written form of contract is required. The right to ownership is transferred to the customer only after the new owner is registered in the land register, even if the contract has been concluded earlier. The contract only obliges the clients to each fulfill their obligations.
- By inheritance. The property right over the estate is acquired with the moment of the deceased's death.
- By a decision of a state body. The right to property is acquired by a final court decision or final decision of an administrative body, unless otherwise provided by law.
- By constant use. In the case of a bona fide landowner, the latter acquires the property right on the property after the expiration of 10 years. Equally, the right to property is transferred to a specific part of the property, if it has been continuously held for 10 years and is in good faith.
- By dividing a common property or a joint ownership (in fact, the property right does not arise because it already existed, it only acquires the shares of other co-owners or joint owners).

When transferring property rights to real estate, several taxes are payable.

#### **Real estate tax**

In the case of real estate transactions where no value added tax has been paid or charged, according to the Tax on Real Estate Sales Act the transactions are subject to tax. Under this Act, real estate transfer is also considered to be the replacement of real estate and certain other transactions of transfer of ownership of real estate. The seller is obliged to pay the tax and is obliged to submit a tax return for the tax on real estate sales with the tax authority within 15 days after the conclusion of the sales contract. After paying the tax, the tax authority confirms this on the original copy of the contract. Without a set and paid tax, it is not possible to authenticate the signatures on the contract with a notary and, consequently, to register the ownership of the property in the land register.

The tax base is the selling price of the property which must correspond to the market price. In case of inconsistency, the tax authority may initiate a measuring procedure, whereby the taxpayer has the right to challenge such a fixed price with the estimated individual market value of the property, but the taxpayer bears the cost of valuing the property.

In certain cases, exemptions for this tax are also applicable, of which the most commonly used in practice are the following: the transfer of real estate in the division of property between spouses and extramarital partners at the time of termination or for the duration of the marriage or extramarital partnership or registered same-sex partnership, transfer of real estate at the time of the cancellation of contract on the transfer of real estate, transfer of real estate in the division of real estate between the shareholders or partners in the liquidation proceedings of the company, the transfer of real estate in the context of material status changes in accordance with the Companies Act, and the transfer of real estate as a substantive investment upon the establishment or recapitalization of a legal person.

If it is a matter of acquiring a property right over a property through a gift or an inheritance, then this tax is not paid - the inheritance and gifts tax is paid.

The tax rate is proportional and amounts to 2% of the tax base.

### **Tax on inheritance and gifts**

The person liable for inheritance and gift tax is a natural or legal person of private law who receives property on the basis of inheritance or donation, as well as a natural person who receives the property on the basis of a contract on life-long support or on the basis of a gift contract for the case of death.

As legal entities governed by private law, this law includes the following: associations, foundations, funds, institutions, private institutes and economic interest groups.

The object of taxation is the property that a natural person receives from a natural or legal person as an inheritance or gift and is not considered to be income under the law governing income tax. The object of taxation under this Act is also property that a legal entity receives from a legal or natural person as a gift or an inheritance that is not considered as income under the law governing corporation tax.

Real estate, movables and property and other property rights are considered property.

The basis for inheritance and gift tax is the value of the inherited or of the property received as a gift at the time of the occurrence of a tax liability after deduction of the debts, costs and burdens that fall on the property from which this tax is paid.

The amount of tax also depends on hereditary ranks and amounts from euros 500 to euros 107,600 and more.

The tax on inheritance and gifts is not paid by:

- an heir or donor of the first inheritance order;
- heirs or donors of the first hereditary order are equalized with son-in-law, daughter-in-law, step-father and heir or a donor who lived with a deceased or donor in a registered same-sex partnership;
- a legal person governed by private law established on the basis of a law governing the pursuit of religious, philanthropic, charitable, health, social, educational, research or cultural activities or the pursuit of protection and rescue activities, but only if it is a gift or an inheritance intended to carry out such activities of a legal person.

## **Value added tax**

Value added tax is charged for any supply of goods or services by a taxable person, whereby a taxable person by definition is a person who independently carries out an economic activity. Real estate transactions, including finance lease, are considered to be the supply of goods.

When selling real estate, VAT is charged for a new real estate or a new construction.

For the supply of real estate in the territory of the Republic of Slovenia, the tax rates in force in the Republic of Slovenia apply.

## **Income tax on capital gains**

When the seller or the donor of a real estate is a natural person who acquired the property after 1 January 2002, in the case of the established profit from capital, in accordance with the provisions of the Personal Income Tax Act, income tax on capital gains in this transaction is also paid. It is taxed for the sale, donation and also the replacement of a property. However, the following transactions are not taxable:

- the transfer of the deceased person's inheritance to the heir or the transfer of immovable property within the framework of inheritance;
- insofar as it involves the transfer of immovable property under the contract of life-long support or the gift contract for the case of death;
- in case of transfer of immovable property from the subject of expropriation;
- if a transfer of immovable property is carried out in the compulsory settlement of compulsory duties;
- in the case of a transfer of a property under a transfer on a lien basis.

Income tax on capital gains is also not paid in the case of the sale of a dwelling or a house (with up to two dwellings) if the owner has a permanent residence in the real estate and has actually lived there for at least the last three years before the sale. The payment of personal income tax is also not required after the disposal of the property after 20 years of ownership and for the disposal of property acquired before 1 January 2002.

The tax base on capital gains is the difference between the value of the property upon disposal and the value upon acquisition, from which a tax of 25% is levied. How to calculate this tax base? The real estate value on sale, donation or replacement is deducted from the real estate turnover tax, the cost of appraisal and 1% of the value of the property, which is recognized as a standardized cost. From the calculated value of the property at disposal, deduct the value of the property upon acquisition. The value of the property upon acquisition is calculated by adding to the initial purchase value of the property the value of investment in real estate and those maintenance costs that increase the useful value of the property (this does not include maintenance costs that allow for a normal residence in the property). The inheritance tax - gifts and potential real estate tax, appraisal costs in the maximum fixed amount (currently euros 188) and 1% of the standardized costs from the purchase value of the property are added. This gives us the value of the property upon acquisition.

In the case of acquisition of a property by inheritance or donation, the value at the acquisition shall be taken into account as the value from which the inheritance tax and gifts were levied.

The difference is taxed at 25% and is considered a definitive tax, which means that it is not counted against the annual income tax assessment base. The tax rate, set at 25 percent, is reduced every five years, and after 20 years of ownership of the property, this tax no longer exists.

The taxpayer must submit the tax return within 15 days from the date of disposal of the capital at the tax office and the tax authority issues the decision within 30 days from the date of filing the announcement. On the basis of all forecasts regarding capital gains, the tax authority issues a decision on the level of personal income tax on capital gains for the previous year in the current year.

### **Income tax due to land use change**

Since the entry into force of the Public Finance Balance Act, i.e., from 31 May 2012, the tax liability for the payment of a tax on profits from the sale of land, which on disposal is considered as land for the construction of buildings, is established. It does not matter when the land was acquired. The taxpayer is the seller and the tax base is the difference between the value of the land at disposal, less the cost of disposal and the value of the land at acquisition, plus the acquisition costs. Only the costs recognized by the law governing income tax are taken into account. A tax on profits due to land use change is 25% if less than one year has passed until the sale since the change of purpose in land for the construction of buildings, and 15% if one to less than three years have passed, and 5% if three or up to 10 years have elapsed.

### **7.2.3. Important / Exceptions**

#### **OBTAINING THE PROPERTY RIGHTS OF FOREIGNERS IN THE REAL ESTATE IN THE REPUBLIC OF SLOVENIA**

Foreigners may, on the basis of Article 68 of the Constitution of the Republic of Slovenia, acquire the property right to real property in the Republic of Slovenia under the conditions laid down by law or international treaty ratified by the National Assembly of the Republic of Slovenia.

*a) The laws enabling foreigners to acquire title to immovable property in the Republic of Slovenia are the following:*

#### Inheritance Act

The Inheritance Act in Article 6 stipulates that foreigners in the Republic of Slovenia regarding the right to inherit property, provided that the principle of reciprocity applies, have the same inheritance rights as citizens of the Republic of Slovenia. In this regard, the Reciprocity Recognition Act in Article 4 stipulates that reciprocity as a condition for the acquisition of a property right on immovable property by inheritance in the course of legitimate inheritance and at a testamentary inheritance, when the heir is a foreigner who would be an heir even after a legitimate inheritance, is presumed until the evidence of the opposite. Where, however, in the succession of inheritance due to the inheritance of a property, reciprocity must be established, the court shall interrupt the succession proceedings. Reciprocity is established by the Ministry of Justice.

#### Act on the Conditions for the Acquisition of the Right to Property of Natural and Legal Persons of the Candidate Countries of the European Union

The Act on the Conditions for the Acquisition of the Right to Property of Natural and Legal Persons of the Candidate Countries of the European Union states that natural and legal persons

of the candidate and the candidate countries themselves may acquire title to immovable property if there is reciprocity. Reciprocity is established in accordance with the Reciprocity Recognition Act.

The condition of material reciprocity is determined by the Ministry of Justice with a decision, namely for each property separately recorded in the land register. Reciprocity is given if a citizen of the Republic of Slovenia or a legal entity established in the Republic of Slovenia can acquire a property right on immovable property under the same or similar conditions under which foreigners can acquire a property right on immovable property in the Republic of Slovenia, and the fulfillment of which for a citizen of the Republic of Slovenia or a legal entity established in the Republic of Slovenia is not significantly more difficult than the fulfillment of conditions for foreigners in the legal order of the Republic of Slovenia (material reciprocity).

On the basis of this Act, the Ministry is conducting a procedure for determining reciprocity if a property right on real estate in the Republic of Slovenia is to be acquired by a citizen or a legal person with head office in one of the following EU candidate countries: the Republic of Macedonia, Montenegro, the Republic of Serbia and the Republic of Albania.

The list of all candidate countries for EU membership can be found on the web pages of the European Commission.

Explanation regarding the status of Bosnia and Herzegovina:

On 1 June 2015, the Stabilization and Association Agreement between the EU and Bosnia and Herzegovina entered into force, which represents one of the preliminary phases by which the potential candidate country is preparing to obtain the status of a candidate country for EU membership and which, for the country in question (in the concrete case Bosnia and Herzegovina), does not mean acquiring the status of a candidate country for EU membership itself. The status of a candidate for EU membership is granted by the EU Council on the basis of a European Commission recommendation.

Given that the Act on the Conditions for the Acquisition of the Right to Property of Natural and Legal Persons of the Candidate Countries of the European Union binds legally guaranteed rights to the status of candidate country for EU membership, which Bosnia and Herzegovina has not yet acquired, for citizens and legal entities with its registered office in Bosnia and Herzegovina, it is still considered that they can not acquire title to immovable property in the territory of the Republic of Slovenia. The only exception is the acquisition of ownership of immovable property on the basis of inheritance on condition of reciprocity.

#### The Law on the Relations of the Republic of Slovenia with Slovenes outside its borders

The Law on the Relations of the Republic of Slovenia with Slovenes outside its Borders provides that a person with the status of a Slovene without Slovenian citizenship shall have the right to acquire title to immovable property in the Republic of Slovenia under the same conditions as the citizens of the Republic of Slovenia.

The status of a Slovene without citizenship of the Republic of Slovenia can be obtained by an individual,

- which is of Slovenian origin (of Slovenian origin),

- who is active in organizations of Slovenes outside the Republic of Slovenia or is actively connected with the Republic of Slovenia,
- who does not belong to societies, political parties and other organizations that oppose the international legal, constitutional and legal rights of Slovenes abroad or actively act against the constitutional system of the Republic of Slovenia, and
- who was not deprived of the citizenship of the Republic of Slovenia under the provisions of the law governing the citizenship of the Republic of Slovenia.

*B) Acquisition of property rights in real estate in the Republic of Slovenia on the basis of international agreements*

**CITIZENS OF COUNTRIES OF THE FORMER YUGOSLAV REPUBLIC OF SFRY and LEGAL PERSONS established in these countries**

In cases where for all citizens of the former republics of the SFRY and legal entities established in these countries all conditions for the registration of title to immovable property in the land register were fulfilled before 31 December 1990 (however, the entry was not realized or the procedure for registering in the land register was not initiated), in the procedures for registering property in the Land Register which were started now, in accordance with the Agreement on Succession Issues applicable to all Signatory States - all the countries of the former Yugoslavia, which entered into force on 2 June 2004, it is not necessary to apply reciprocity decisions.

However, the following condition must be met:

- at the beginning of the process of registering the property right in the land register, a foreign citizen must submit a document of proof (most often it is a sales contract), which shows the valid binding and disposing legal transaction - with a valid land registry license under the then regulations.

**EU**

Pursuant to Article 3a of the Constitution of the Republic of Slovenia and the Act Ratifying the Treaty between the EU Member States and then candidates with which it acceded to the European Union, the Treaties on which the European Union is founded have entered into force in the Republic of Slovenia.

The Republic of Slovenia has not accepted any exceptions and transitional periods regarding the free movement of capital in the field of real estate, therefore, from the day of the Republic of Slovenia's accession to the European Union, citizens of the Member States of the European Union may acquire real estate on the territory of the Republic of Slovenia on the basis of all legal foundations, under the same conditions as the citizens of the Republic of Slovenia.

**EEA**

Pursuant to Article 40 of the Agreement on the European Economic Area (Official Gazette of the Republic of Slovenia - MP, No. 9/05), there are no restrictions on the movement of capital belonging to persons resident in the EC Member States or the EFTA States, and no discrimination on grounds of nationality or the place of residence of those parties or the place of investment of that capital. Citizens and legal entities of the Republic of Iceland, the Principality of Liechtenstein and the Kingdom of Norway can therefore acquire real property in the territory of the Republic of Slovenia without any special restrictions applicable only to

foreigners, and therefore they do not need an administrative decision on the establishment of reciprocity in order to obtain ownership of immovable property in the Republic of Slovenia.

#### OECD

Acquisition of property rights for citizens and legal entities of OECD member countries over real estate in the territory of the Republic of Slovenia is possible on the basis of the Law on Ratification of the Convention on the Organization for Economic Cooperation and Development and Supplementary Protocols no. 1 and 2 of the Convention (Official Gazette of the Republic of Slovenia - MP, No. 10/10) and the Law on Ratification of the Agreement on the Conditions for the Accession of the Republic of Slovenia to the Convention on the Organization for Economic Co-operation and Development (Official Gazette of the Republic of Slovenia - MP, No. 10/10), from the date of the accession of the Republic of Slovenia to the Organization for Economic Co-operation and Development (OECD) Convention, that is, from 21 July 2010.

OECD countries that are not EU Member States are: Australia, Canada, Iceland, Chile, Israel, Japan, Mexico, Norway, New Zealand, Switzerland, Turkey, South Korea and the USA. Citizens and legal entities of these countries may acquire a property right on immovable property in the territory of the Republic of Slovenia under the same conditions as nationals of EU Member States, that is, under the same conditions as apply to citizens of the Republic of Slovenia.

All OECD Member States are listed in the following link:

<http://www.oecd.org/about/membersandpartners/list-oecd-member-countries.htm>

#### *c) Other countries*

Laws that would allow foreign nationals of other countries to acquire property rights in real estate in the Republic of Slovenia, with the exception of the aforementioned Succession Act, have not yet been adopted, and no international treaty has been ratified to allow citizens of other countries to do so. Considering that the legal basis for the acquisition of the property right of citizens of other countries in the Republic of Slovenia could also be an agreement of the European Union with other countries, which also refers to real estate transactions, we need to check with the Ministry of Economic Development and Technology for information on the possible existence of such a treaty in any specific case. Upon receipt of their response, we will conduct a procedure for establishing reciprocity as necessary.

The same applies to legal entities established in these countries.

#### **7.2.3. Tips from professionals**

How to implement the procedure for establishing reciprocity as a condition for obtaining the property right of foreigners to real estate in the Republic of Slovenia?

**PROCEDURE FOR RECOGNITION OF RECIPROCALITY as a condition for acquiring the right of foreigners to immovable property in the Republic of Slovenia**

The procedure starts at the request of a foreigner who wants to acquire a property right on real estate in the Republic of Slovenia. A foreigner who does not live in the Republic of Slovenia is

obliged to appoint a proxy in the Republic of Slovenia in accordance with the General Administrative Procedure Act (Official Gazette of the Republic of Slovenia, No. 24/06 - official consolidated text, 105/06 - ZUS-1, 126/07, 65/08, 8/10 and 82/13).

Under Article 8 of ZUV, the application for the establishment of reciprocity is to be enclosed with:

- personal data of a foreigner (in the form of a public document in the original or certified photocopies - passport or identity card);
- proof of nationality (in the form of a public document in the original or certified photocopies - passport or other certificate); in the case of several nationalities of a foreigner, it is necessary to indicate where the foreigner has his permanent residence OR where the foreigner had his last residence before obtaining a permanent residence permit in the Republic of Slovenia;
- a land registry statement for a property in a proceeding;
- the acquirer's legal interest (a document by which the client displays at least one of the conditions for obtaining a property right under the law or international agreement - e.g. a draft of a sales contract, a pre-contract, the contract itself);
- a statement of the purpose for which the property is acquired (e.g., stay, secondary residence, pursuit of an activity);
- a real estate document issued by a competent branch of the Surveying and Mapping Authority of the Republic of Slovenia in accordance with the Instructions for Filling in a Document with Real Estate Data in the Procedure for Determining Reciprocity (Official Gazette of the Republic of Slovenia, No. 24/99), which should not be older than 45 days from the date of issue.

When submitting an application, in accordance with the first paragraph of Article 5 of the Administrative Fees Act (Official Gazette of the Republic of Slovenia, No. 106/10 - official consolidated text, hereinafter: ZUT), the administrative fee under tariff numbers 1 and 3 of the ZUT should be paid in the amount of EUR 22,66.

In accordance with the first paragraph of Article 8 of the ZUT, a taxpayer may pay the administrative fee (payment method):

- personally - at the lodging centre at the headquarters of the ministry (on payment, the client submits a confirmation to the ministry) or
- with a payment order - transfer to account: 01100-1000315637; reference SI 11 20303-7111002-2014, Ministry of Justice, Župančičeva 3, 1000 Ljubljana (on payment to the Ministry, the certificate is submitted to the Ministry).

If upon receipt of an application (when such an obligation arises) the fee is not paid or is not paid in the prescribed amount, the ministry shall send an invoice to the person paying a fee, ordering him to pay a fee in 15 days.

On the basis of a complete application, the Ministry of Justice, from the current record kept by it or on the basis of a request to the country of the foreigner, obtains information on how the acquisition of a property right located in the same or similar area for a citizen of the Republic of Slovenia is governed by the same or similar real estate in the legal order of the country of which the foreigner is a citizen. The existence of reciprocity shall be decided by the ministry within 90 days of receipt of a complete application by decision. After the expiration of 30 days (from the day the decision was served to the client or his authorized representative) and when the body receives a certificate from the administrative court that an administrative dispute has not been initiated (which means approximately another 10 days), the authority confirms the decision with a clause of res judicata or issues a certificate about the final decision. The decision

thus provided is an authentic document on the basis of which the ownership right can be entered in the land register for a specific real estate. The foreigner must attach the final decision to the proposal for the registration of the property right of a foreigner on immovable property in the land register.

## 7.3. REAL ESTATE REGISTER

In this chapter, we will learn more about the real estate register, its purpose and its usefulness.

### 7.3.1. Theoretical framework

- The Real Estate Register is a public real estate database that records actual facts about all real estate in one place.

A property can be an independent land (plot), land with associated facilities (e.g. a plot with one-family house), a building (e.g. a building with a building right) or a part of a building (e.g. apartment). All parts of one property (land and parts of buildings) have the same ownership.

The Real Estate Register holds data on:

- land registered in the Land Cadastre;
- buildings and parts of buildings recorded in the Cadastre of Building;
- owners and
- all other properties not yet recorded in the Land Cadastre and the Cadastre of Buildings.

For individual real estate, the following data are kept in the Real Estate Register:

- Location and size,
- Actual use,
- Production capacity of the land,
- Generalized market value,
- Age,
- Usable area, method of construction ...

In the real estate register, data of the census, data of the land cadastre, building cadastre, land register and some other public records, as well as data provided by real estate owners on a daily basis, have been included. The real estate register also contains information about the persons who are probably the owners of the property. This applies in particular to buildings and other parts of buildings that do not have ownership in the land register.

Data on buildings and parts of buildings that are registered only in the real estate register do not provide the owner with legal certainty, as they do not represent the basis for registration of ownership in the land registry.

The data in the real estate register which are not taken from the cadastre or the land registry are not completely reliable.

Registration of real estate in the common register is mandatory in Slovenia from 2013, although it was foreseen already in 2007. It is about reporting on sales of real estate transactions and on leasing transactions with buildings and parts of buildings recorded in the real estate market record, with a special form on the website of the Surveying and Mapping Authority of the Republic of Slovenia.

The register is publicly accessible and is extremely useful in connection with the land register.

Owners of real estate obtain access to the registration of their own property with the code from the notice on the experimentally calculated value of real estate. If the owner no longer has the code, it can be obtained from any geodetic office - without additional requirements.

Perusal of the database is only possible for registered users:

- business entities (legal entities, sole proprietors, notaries, valuers, etc.) who want to inspect the real estate data;
- geodetic companies that according to the law have the right to perform geodetic activity and want to access applications and data;
- state administration and notaries, who according to the law have the right to issue certificates from geodetic data collections;
- local communities and public administrations that want to download geodetic data through websites;
- owners of public utility infrastructure and manufacturers of elaborates.

### **7.3.2. Important / Exceptions**

The register is useful for several reasons. It eliminates the unsettled situation in real estate, the lack of up-to-date data, and removes obstacles to good spatial planning, such as ignorance of the state of buildings and built infrastructure. It is also useful for environmental policy and energy policy measures, since it enables independent verification of regulations and measures by the expert and other public.

It also has a positive impact on the real estate market. Good information allows for more economic decision-making, especially in the field of real estate purchase, which can have a significant impact on the individual's life and the life of his family. It provides an overview of the generalized market value of the property (although it is actually different from the market value, the data is very useful for comparability purposes). This is especially important, since the Slovene market is intertwined by many anomalies that can be restricted by the registry. At least partially, it relativizes the role played by the real estate agents and investors who have previously had privileged information and the clients were totally dependent on them.

### **7.3.3. Tips from the professionals**

Real estate and other properties can be attractive to scammers and frauds, as they can be used for sale and pledge in order to obtain money. In principle, such a property could be sold on several occasions, by more customers and take their money or take a mortgage on the property and sell it without warning the buyer of a substantive mistake, of course at a higher price, but when it would not be paid, the bank would seize it, even though the buyer paid it fairly.

Tips for FDI advisors:

- Make sure the land is registered, marked, and entered. Check the real estate register, along with the land register, in order to obtain a real picture of the property.

Reliance on data from a land registry gives you security, since no one should suffer harm if relying on this information.

- If the property is registered only in the Real Estate Register or the data in the Real Estate Register is different from the data in the land cadastre, the cadastre of buildings or land registry, this is a warning that the registration of data in the cadastre (in the geodetic office) and registration of substantive legal rights (ownership) in the land register (district court) need to be arranged.
- Find out whether the real estate you are buying is really free of substantive burdens, such as various easements, mortgages, etc. The owner is supposed to alert you about them, but it is safer if you inform yourself about the potential burdens on the real estate

## **7.4. BASES OF INVESTMENT AND FINANCING OF ACQUIRING PROPERTY**

The purchase of a property nowadays exceeds the creation of a new home. Investing in real estate has become a practice, because in principle it represents a safe investment for the future (even if it is not the real estate where the buyer/investor intends to live). The real estate market offers opportunities for huge profits but investing in this market is usually much more complicated than investing in shares.

### **7.4.1. Theoretical frame**

We know several types of real estate. In general, they can be divided on the basis of purpose and actual use:

- residential real estate (residential buildings, houses and land intended for housing construction);
- commercial real estate (buildings with office spaces, hotels, shopping centers, building land for the construction of business buildings, etc.);
- industrial real estate (production buildings, warehouses, mines, building land for industrial activity, etc.);
- special-purpose property (buildings for the activities of educational institutions, hospitals, cemeteries, etc.);
- agricultural property (farms, meadows, forests, etc.);
- public property (roads, parks, administrative buildings, public sports facilities, schools and other public real estate).

In real estate market the most active is business with residential real estate. Residential real estate is divided into dwellings, houses and land intended for residential construction. The houses are divided according to the shape into individual, row house, duplex, two-apartment, atrium, triplex etc. Apartments are divided into rooms, studios, one-bedroom, two-bedroom, three-bedroom, four-bedroom, and five-bedroom or more.

Real estate characteristics as marketable products can be classified into the following groups:

#### **a. Physical properties**

The basic characteristic of real estate is their immovable quality, however, only for land can be claimed to be truly immovable. Buildings and other improvements can be moved, but any such move is associated with high costs and therefore only happens exceptionally. Similar is true for indestructibility of real estate, whereby the indestructibility of the land allows long life for buildings and other improvements. In this context, account must be taken of the economic sustainability of the real estate, which depends on the various environmental effects and can therefore be distinguished from the physical period of use of the property. The next physical property of the property is heterogeneity or diversity, since it is not possible to find two completely identical lands, buildings and other things that are classified as real estate.

## **b. Economic characteristics**

The rarity of real estate, or their insufficient supply, due to a fixed physical offer of land is one of the basic economic issues related to real estate. In the case of demand increase, with greater and more intensive use of land and space, we can increase their supply, therefore it is only a relative rarity of land. The physical and, above all, the economic location of real estate influence the different use and value of real estate. The decisions of individuals and groups regarding the location of real estate are primarily influenced by their availability, exposure of position and personal preferences. Real estate is characterized by the interaction between uses, improvements and values, commonly referred to as the interdependence of real estate. An important economic feature is the long repayment period of real estate investments.

## **c. Institutional characteristics**

Real estate laws and various regulations, such as local and regional spatial plans, rent controls, controlling the parceling, etc., have a strong impact on real estate. The nature, appearance and use of real estate are influenced by local and regional habits. Real estate and community development are more or less affected by various real estate associations and organizations.

## **Types of investment in real estate**

There are several ways to invest in real estate:

### **1. Rent**

Practice that is as old as the ownership of real estate. It is the idea that a person will buy a property and rent it immediately, in order to earn a profit. The investment is repaid eventually. In doing so, the lessor is obliged to repay the mortgage, taxes, and maintenance costs of the property (other than those arising from the use because they are paid by the tenant), the rest is at the tenant's disposal. In principle, the profit will be the same as for the resale of a property, but it will build up more slowly. Thus, if someone buys a property in an evolving part of the city, rental is a good idea because the value of the property will eventually increase, and the rent will be higher. However, this is a long-term large investment which also depends on taxes and future sales.

### **2. Resale of real estate**

There are two options: the first is "buy low, sell high," i.e. buying at a low price and selling at a high price, which is possible in the fast-evolving part of the world or city, while the other is "fix and flip", i.e. repair and resell, which dictates that a decayed property be purchased which is then repaired and sold at a higher price. It is important that the property is sold much below the price, or renovated in the way to bring about an appropriate profit.

### **3. Real estate investment companies**

Businesses may be small or large, but they operate by the same principle. They represent a solution for all those investors who want to have real estate for renting out, but who do not want the burden of the owner. Such companies or associations actually purchase or build a certain complex of buildings or apartments and then sell them to investors. An investor may own one or more residential units, but they are still managed by a real estate company (maintenance,

advertising, etc.), in return for managing real estate companies take a certain percentage of the profits.

#### **4. Real estate funds listed on the stock exchange**

It is about investing, buying and selling real estate, just like on a stock exchange, through the use of investor (shareholder) money. This is a sale that is similar to the sale of shares on the stock exchange

##### **7.4.1.1. Basic characteristics of instruments intended for financing investment in real estate**

There are several ways and tools to finance real estate. An investor who builds or buys a property can do this by means of his own funds or by trying to obtain financial assistance from various sources: banks, other lenders, government agencies, etc.

#### **Savings and loan associations**

It is a fundamental form of financing investment in real estate. The main activity of such institutions is the financing of the construction / purchase of residential real estate, in principle through a lien or a mortgage. These are savings banks, investment funds, commercial banks, etc.

The most important features of such institutions are the following:

- By using the savings of a certain individual, long-term depreciated loans are provided to the borrowers.
- These are loans intended for the construction, purchase or renovation of real estate.

#### **Commercial banks**

Commercial banks represent an important element in real estate trading. In principle, they buy mortgages and liens on real estate from other brokers but pursue profit.

Principles of their operation:

1. If a bank has a specialized department dealing with liens on immovable property, it competes and buys such liens on the market. If there are no specialized departments, in principle these banks offer loans for the purchase and construction of houses, apartments or agricultural land.
2. Banks buy liens on real estate and thus become a creditor in this relationship.

#### **Mortgages, mortgage dealers and brokers**

Mortgage means a lien on real estate, as a substantive guarantee that the debt will be repaid. If the debt is not repaid, the mortgage means that the lender can sell the real estate and repay it from the proceeds.

Mortgage brokers are individuals or institutions that offer mortgages as a form of credit, concluding and selling them to other investors in order to generate profits. They can act as agencies with a view to redistributing assets for taxes and insurance.

In principle, brokers and traders represent investors because they finance the construction and purchase of real estate from multiple sources. They generate income from payment of an

installment, similarly to banks. One particular feature is the fact that the funds are drawn from several sources, and therefore they can offer the most suitable and favorable credit at that moment. Intermediaries are important, as they force even the largest credit providers - banks - to embrace competition on the market and to adjust prices and offers.

### **Other sources**

Individual lenders, also family members, although few on the market, still exist. Typically, private lenders prefer short-term loans, and, in principle, their loans represent less than 2/3 of the value of the property.

Exceptionally, it is possible to obtain grants from the state or the European Union for investment in real estate; for example, if it is a renovation of an object that will create an innovative tourist product (you can get more information on obtaining grants in Module 4).

### **7.4.2. Important and exceptions**

If a foreign investor does not have sufficient own funds or has decided on a loan for other reasons (for example, a potentially higher return), he needs to provide the lender with a guarantee of his input.

Most often, the insurance is concluded in the following two forms:

**Credit insurance:** insurance means the relationship wherein the insurance company undertakes to pay the insured person the insured amount in the event of a risk occurrence; in exchange, the latter pays a certain amount (insurance). It is therefore a method of risk distribution.

**Mortgage:** mortgage itself is some form of insurance instrument, because it is a lien. The whole idea is to insure the lender, since in the event that the debtor does not pay the debt, he can use his real estate, sell it and repay his expenses from the proceeds.

### **7.4.3. Tips from the professionals**

In a period of high economic growth, when lenders compete with one another to obtain customers, it makes sense to obtain as many offers as possible on terms and conditions of lending by different providers.

## 7.5. THE REAL ESTATE MARKET ECONOMY

The economy of the real estate market means the application of economic systems to the real estate market. Through the economics of the market, we get to know the pattern and trends in prices, demand and supply. These fluctuations are explained and speculation on the trends in the future can be expected. Research is studying real estate trends and impact on business and structural changes in industry. Research is based on micro and macroeconomic analysis (in terms of supply and demand), spatial economics, urban economics, wide research and findings.

In this chapter we will look at some of the basic concepts in this field.

### 7.5.1. Theoretical framework

The main roles in the real estate market are implemented by:

- Owner / user: investors are owners and users of the property. It is a purchase of a residential property as an investment in order to live in a real estate.
- Owner / shareholder: they are owners who buy real estate only as an investment, without the intention of living in it.
- User / lessee: the user / lessee is not the owner of the property, but only uses it.
- Development: agencies and individuals that prepare some land for construction and plan the construction.
- Financiers and others: banks, brokers, lawyers and others who enable the purchase and sale of real estate.

#### 7.5.1.1. Value of real estate

The value of real estate, as with other market products, depends on the costs that are necessary for their acquisition, as well as on subjective assessments of participants in the process of exchange. We distinguish two types of values:

a) the value in use, which is a personal valuation of the value and is formed from the perspective of the individual user, and

b) the value of the exchange or the market value achieved by the real estate in the process of exchange in the form of a price.

Market value, on an incomplete real estate market, can be significantly different from subjective assessments of individuals.

An objective appraisal of the market value of a property is often entrusted to impartial experts - valuers and represents a base price in the process of buying and selling real estate and in determining the amount of the loan for the purchase of real estate.

Depending on the purpose of the appraisal, several other types of real estate values are distinguished: credit or mortgage value, taxable value, insurance value, etc. The property appraisal procedure usually includes:

1. determination of the physical and legal properties of the real estate (size, age, potential mortgage burden, etc.),
2. determining the types of property rights that will be subject to appraisal (for example, complete or only partial property right on real estate),
3. determining the purpose of the appraisal (purchase contract, execution, etc.)
4. determination of the date to which the assessment relates (due to constantly changing market conditions),
5. collection and analysis of data,
6. use of methods for the final evaluation of the value of the property.

In the case of individual real estate valuation there are three basic methodological approaches:

- a) Market approach or approach of comparable sales. It is relatively simple and very realistic. It is characterized by the fact that it is directly linked to market data. It is based on the principle of substitution, which means that a rational buyer for a real estate should be ready to pay, as the maximum price, the price which equals the cost of acquisition of a similar property with the same utility. The market value of the property being assessed can thus be ascertained from the selling prices of comparable real estate.
- b) Income approach. It is usually used in the valuation of real estate that bring a certain permanent income. The value of a real estate represents the amount that the buyer would be ready to pay for the acquisition of the right to receive all future net returns of the real estate. In order to assess the value, all the future cash flows from the property and capitalization rate need to be determined.
- c) The cost approach is based on the replacement value logic, since it is presupposed that a rational buyer would be ready to pay for a real estate as much as the minimum cost of building a comparable property - real estate with the same useful value. It is necessary to estimate the value of the land and to add the costs of substitution and deduct from this amount the depreciation so far of existing facilities.

The choice of method depends on the type of property assessed, the purpose of evaluation and quality of input data, each of which has specific shortcomings, and therefore the best results are usually obtained by taking into account the results of all three methods, which of course, consequently, also causes higher evaluation costs.

#### 7.5.1.2. Risks associated with investment in real estate

The basic **risks** of investing in real estate are as follows:

- a) **Business risk.** It can be defined as the risk of change (reduction) of income from real estate, due to changes in the economic activity of a certain economic area that can cause people to move, reduce their incomes, increase operational costs related to real estate, deteriorate businesses etc. These changes affect the demand for real estate and consequently the realized rents of investors. Investors can reduce this risk by dispersing investments in various types of real estate, which are of different sensitivity to this kind of risk, or with appropriate forming of

lease contracts (e.g. rentals for which the lessor covers costs only up to a certain amount, and the difference is covered by the lessee).

b) **Financial risk.** This is due to the use of leverage in financing the investment in real estate, since liabilities arising from debt financing are of a fixed nature. Therefore, in the event that the property does not yield an adequate return for a long time, liabilities to the lenders can cause the project to collapse. The investor can protect himself against financial risk with an appropriate debt structure (e.g. participatory loans), by refinancing or rescheduling of loans in agreement with the lender, etc.

c) **Liquidity risk.** It exists on the market with a relatively small number of sellers and buyers where there are few transactions with certain goods. Low market liquidity means that the client who is forced to enter into a transaction within a relatively short period of time needs to pay an appropriate (monetary) premium. Relatively poor market liquidity is also common to the real estate market, especially for specialized real estate (e.g. health facilities), which can not be easily adapted for other purposes. Therefore, there is a risk that the seller of real estate will have to sell the property at a discounted price in the event of a rapid liquidation of assets.

d) **Inflation risk.** The rise in prices can lead to a reduction in the real value of income that an investor receives from a real estate, if he is not insured with appropriate measures beforehand (e.g. valorized rent which is corrected for the rate of price growth of consumer goods).

e) **Management risk.** It is related to the ability of real estate managers (their innovativeness, adaptability, ...) regarding the maintaining of real estate value and their expected yield.

f) **Interest rate risk.** Changes in interest rates affect profitability of investments in real estate, because on the one hand they influence the investor's costs of debt financing, while on the other hand facilitating the potential tenants of the premises (fall in interest rates) or make it more difficult (rise in interest rate) for them to access cash, thereby affecting the price (rent) that they are willing to pay. Because in financing of real estate generally a relatively high leverage is used, changes in interest rates can cause significant losses or profits to their investors. As insurance against interest rate risk various financial instruments are used, for example, interest rate swaps, interest rate caps, etc.

g) **The risk of changes in legislation.** The area of real estate is relatively heavily regulated, therefore, changes in legislation may have a major impact on their profitability.

h) **Environmental risk.** Also changes in the environment, awareness of the harmful consequences of use of certain materials can have a significant impact on the value of real estate (e.g. use of asbestos for the insulation of real estate was sometimes completely normal, but today it is regarded as a harmful substance; or e.g. detection of a nearby radioactive material deposit, etc.).

### 7.5.1.3. Situation in the real estate market in Slovenia

In the previous year and this year (2018), there was a real estate boom in Slovenia, with real estate prices and, consequently, rents jumping into the sky, especially in larger cities.

Since the economic crisis, when Slovenia has recorded the greatest fall in GDP, the GDP growth of 5% was recorded in 2017, although forecasts are no longer as optimistic as they were. After the end of the crisis and austerity measures, the number of transactions increased, demand for real estate has risen drastically, also under the influence of websites such as Airbnb, and with

the expansion of mass tourism. The banks have also adapted to the demand, which eases the conditions necessary for obtaining a loan for the purchase of real estate.

## Prices of real estate in Slovenia

### **RESIDENTIAL BUILDINGS**

#### i. APARTMENTS

In 2017, the square meter of dwelling in Ljubljana cost about € 2,000; in 2018, the price is already approaching € 3,000 per square meter.

The value of dwellings increased on average by around 9%. The highest surge in prices was recorded in Ljubljana, where we also recorded the highest prices, while outside large cities (where prices are comparable), housing costs are growing at a comparably lower rates, but prices are also rising there.

The rise in prices is due to lack of adequate infrastructure, as there are almost no luxury real estate, and there is still a lack of housing for young families that would end their problems in obtaining appropriate dwellings.

Rental prices in the capital range around € 12 per square meter, with the smallest dwellings being the most expensive. In the case of rented apartments, demand also greatly exceeds the supply, and it still grows, which also raises the prices. Thus, the price for renting an apartment of 60m<sup>2</sup> in Ljubljana can reach up to 600 € without considering any living costs.

Of course, both the price of a property and the amount of rent varies according to the condition of the property, the proximity of the city center, kindergartens, schools, infrastructure, etc.

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#### ii. HOUSES

The prices of houses and their rents are the same per square meter as for apartments, however, it is necessary to consider that houses are relatively larger and therefore the price or rent is appropriately higher in terms of square footage.

As far as houses are concerned, demand is also much larger than supply, so much so that we could talk about ballooning prices. There is especially a shortage of single-family houses suitable for young families.

### **COMMERCIAL REAL ESTATE**

In the field of commercial real estate after the crisis the rise in demand and, consequently, the prices of such real estate (commercial, service, catering establishments) have been recorded after the crisis, even though in the last year we see a slight decrease in prices, however, positive developments are supposed to continue.

Due to the diversification of real estate, the market is very fragmented, which means great differences in supply and demand for different kinds and types of real estate (the same real estate is not suitable for both catering and business premises).

The average office space price was around euros 1,020 per square meter for the territory of entire Slovenia; in Ljubljana, somewhat more, about € 1,420 per m<sup>2</sup>, on average for premises over 30 years old, with an average space of of 131m<sup>2</sup>. The prices of these real estate are falling.

For commercial and catering establishments, an average cost of euros 980 per square meter was required. In principle, the rooms are larger than 130m<sup>2</sup>.

Rental of business premises is nevertheless more accepted, and in principle also more favorable. In principle, rental of business premises amounts to around €8.4 per square meter, in Ljubljana approximately €10. Since these are older data, it should be noted that prices have fallen slightly during this time.

### **7.5.2. Important / Exceptions**

What is the profitability of investing in real estate?

Depending on the situation on the real estate market and type of investment. The assessment is in any case a mere estimate, as it is not possible to predict all the factors that affect the prices of real estate.

The profitability of real estate from received rentals is currently (in 2018) four to five percent per year, as we are in a situation of great economic growth, with the market blooming again. Rental prices have also grown due to the lack of available rental apartments.

### **7.5.3. Tips from the professionals**

In his Timely Tips for New Real Estate Investor, Golhar Abhi notes that there are many factors that an adviser must warn a foreign investor about before entering into an investment in real estate:

1. An investment in real estate is a business and should be taken into account as such.
2. A business should be started with a good plan based on extensive research.
1. An investor should be aware of his abilities and weaknesses.

Prior to recommendation of any property to a foreign investor, it is first necessary to inquire about the location of the property and to estimate its indicative market value. In this regard, the

positive, for example the proximity of the school, kindergarten, shops, city center, as well as negative factors, such as air pollution, noise, parking problems, etc., are taken into account.

It is important to identify and evaluate any potential risks associated with an investment, as there are large amounts at stake and a large number of risks are usually associated with property ownership. In order to avoid them or reduce them, it is necessary:

- identify different possible risks related to the investment,
- understand and evaluate all possible risks associated with the investment,
- assess all risks and decide on preventive measures.

## **7.6. CONTRACTS USED IN THE REAL ESTATE MARKET**

In this chapter we will look at the general characteristics of contracts that are most commonly used in real estate transactions.

### **7.6.1. Theoretical framework**

A real estate contract is a legal transaction between two parties, whether it concerns the purchase, sale, or any other form of transaction in the real estate market. These are bilateral agreements which need to be prepared in writing, and most often certified by a notary public.

The most common are the purchase contract, the lease contract and the contract with the real estate agency. Each has different ways and terms of use.

#### **Contract of sale**

A contract of sale for a real estate or a sales contract is a contract for the sale of a real estate by which the seller of the real estate commits to hand over the property that is the subject of the contract to the buyer, whereby the latter acquires the property right on this real estate, while the buyer undertakes to pay the seller the purchase price specified in the sales contract for the same property. The contract must be concluded in writing, as required by the laws governing real estate transactions, since the contract is only valid in this form.

In order for the buyer to achieve the registration of a property right on the basis of a sales contract, the real estate must be described in the contract with the information that are entered in the land register. The sales contract is merely the legal basis for the acquisition of the property right, which means that with the contract alone the buyer does not yet acquire the ownership right. In addition to the valid sales contract, the acquisition method of the property right in the real estate is also required - the registration in the land register. Thus, the buyer does not acquire the property right already with the conclusion of a sales contract, but only by entering it into the land register.

In most cases, the parties agree on a deposit under the sales contract. It should be pointed out that the monetary amount has a legal effect of a deposit only if the parties conclude (sign) a contract for the sale of real estate at the time of handing over the deposit.

The main components of a sales contract are the information of the buyer, seller and real estate. The information on the contract parties (buyer and seller) are the following:

- name and surname (natural person) or company (legal entity),
- place (natural person) or registered office (legal person),
- SS number (natural person) or registration number (legal entity), tax number.

The contract must also include the essential elements of the sales contract, namely the subject of the contract (real estate) and the price. In order to adequately protect the legal position of both contractual parties, it is important that with the contract the parties also agree on the deadline or deadlines for payment of the purchase price and the method of payment of the

purchase price, the term of delivery of the property, as well as the moment when the buyer acquires a property right on the sold real estate. When a buyer pays a purchase price or a portion of the purchase price with a bank loan, it is recommended that the contract also indicates the number of the seller's transaction account onto which payment is required. The contract must specify the price (purchase price) that the buyer undertakes to pay for the property, as this price is the basis (base) for the assessment of sales tax, notarial charges and fees for entry in the land register.

### **Lease contract**

With a renting contract for an apartment, the landlord undertakes to hand over the apartment to the tenant in use / rent for a certain rent. In addition to regular maintenance of the apartment (e.g. replacement of lamps, cleaning of the apartment, payment of a plumber for unclogging of pipes under the sink), the principal obligation of the tenant is the payment of rent. The landlord, however, is obliged to give the tenant the apartment for use, while at the same time taking care of the maintenance of the dwelling which is not the consequence of the regular use of the apartment (e.g. changing windows, doors, installing new radiators).

A lease contract is concluded in writing for a fixed or indefinite period, and in accordance with Article 91 of the Housing Act it must contain at least the following essential elements:

- description of the apartment, its location, area, structure, communal equipment, year of construction and the way of using the apartment;
- identification code from the cadastre of buildings;
- name and surname of the owner, tax number of the owner, name and surname of the tenant and persons who will use the apartment together with the tenant;
- termination reasons as defined in Article 103 of the Housing Act;
- type of lease by category of rental apartments;
- provisions on mutual obligations of contracting parties in the use and maintenance of housing and common parts of an apartment building or multi-dwelling building;
- amount of the rent and the method and terms of payment;
- method of payment and the amount of costs not included in the rent, referring to the costs of supplied electricity, water, district heating of apartment and the like (individual operating costs) and the costs for the operation of the common parts of an apartment or multi-dwelling building (joint operating costs);
- provisions on how to use the dwelling and how and in what time periods the owner will check the proper use of the dwelling;
- the duration of the lease relationship, if the apartment is rented out for a fixed period of time;
- the way of handing over the dwelling.

### **Contract with a real estate agency**

The contract with a real estate agency is concluded by the seller when the agency acts as the go-between in the sale of the property.

### **7.6.2. Important and exceptions**

Due to the real estate boom, where property prices rose to the sky due to increased demand as the markets slowly recovered, the number of concluded contracts in the real estate business and real estate market also increased.

The number of real estates purchased by foreigners in Slovenia is growing from year to year. The most common foreign buyers are Italians, Croats, Austrians, Germans, English, as well as Russians, although statistical data can not be obtained because real estate is usually bought through companies.

### **7.6.3. Tips from the professionals**

It is widely accepted that real estate contracts are complex and incomprehensible, which is often wrong. The following steps can help you when faced with such a contract:

- It is necessary to understand the types of real estate contracts, and how each of them can benefit the investor.
- Read each contract carefully, including fine print.

Nevertheless, FDI advisors should leave the drawing-up of the contract to lawyers or real estate agents!

## **7.7. ROLE OF NOTARIES IN REAL ESTATE TRANSACTIONS**

### **7.7.1. Theoretical framework**

A notary is a person appointed by the State which provides the public legal service as a free profession. Notaries are professionally trained to draw up public and private documents, ensure legal certainty in various legal transactions, impartial and objective legal advice for all participants in a specific legal transaction, the deposit of documents, securities and money.

The main task of the notary is to ensure the safety of legal transactions by attending signing of important contracts and informing the clients about the consequences that they carry. They can also verify contracts and other papers and certify them as valid.

The notary's role is the establishment of public trust in such concluded instruments and transactions, and the restriction of fraudulent intentions. The notary, as an impartial party, needs to check the identity of the parties, to inform them about their rights, and to make sure that they have entered into the contract at their own will. Since contracts between perfect strangers are now more a rule than an exception, the notary ensures trust in the validity of the concluded contract and protects both parties.

If the notarial form is prescribed, but is not fulfilled, the contract can be either null and void or disputable, depending on the form of the contract.

### **7.7.2. Important and exceptions**

In Slovenia, it is essential that all contracts that relate to real estate are concluded in writing, whereas they need to be concluded before a notary only if so prescribed by law.

Certification of a signature by a notary is mandatory for:

- sales or gift contracts, in the case of a contract transferring the property right to real estate to another person,
- contract with which a certain easement right is granted to another person.

Certification of the signature means that the notary certifies that the document was actually signed on the document by the person indicated. The contract must be signed in advance by all parties to the contract. The verification of the signature must be proved with a valid personal document.

### **7.7.3. Tips from the professionals**

Although not legally required, it is sensible for foreign investors to propose a notarial certification of all important documents.

## 7.8. REAL ESTATE AGENTS

In this chapter we will learn about the role of a real estate agent in investing in real estate.

### 7.8.1. Theoretical framework

A real estate agent is a person who is licensed to carry out real estate transactions. His scope of work includes the purchase of real estate, land and commercial real estate, and offering them for sale (or rent). It is actually a real estate agency (as a broker) and on its behalf a real estate agent or a dealer is operating in advising a client who wants to buy, sell or rent a property.

#### 7.8.1.1. Real estate company or real estate agent?

These are not synonyms (except in the spoken language of lay people). There are differences between them, in particular with regard to their qualifications and the tasks they perform.

##### **Real estate agent:**

- Properly trained person
- Status of a real estate agent is granted when approved by the competent ministry (a certificate on the national qualification for a "real estate agent" is required, and a certificate of impunity must also be enclosed). He obtains the status on the date of registration in the real estate agents directory.
- He works for a real estate agency or independently offers his services on the market (in Slovenia only rarely).

##### **Real estate company**

It is a company that offers brokerage in the purchase, sale and rental of real estate

- It acts as a real estate agent
- In principle, real estate agents are employed by an agency and carry out the latter's business transactions with the client
- In principle, they are paid in percentage of the payment (e.g. 1 rent, determined percentage of the paid property price which was paid to the agency).

##### **Tasks and responsibilities of real estate agents**

###### **There are 2 basic forms:**

- a) **An agent acts in favor of the seller:** in principle, a real estate agent collaborates directly with the client on the behalf of the agency that mediates a real estate.
  - Provides available real estate.
  - Finds buyers for the property sold.
  - Receives a part of the profit if he finds the right buyer.

- Advises the seller how to repair and prepare his property for sale.
  - Controls the visits of potential buyers and reports to the seller.
  - Passes all possible offers to the seller so that the latter can make informed decisions.
  - Helps the seller to negotiate in order for the offer to be acceptable to both the buyer and the seller, thus securing the selling of the property.
  - Carries out the transaction.
  - Hands over and explains any necessary documentation.
  - Works with the seller to conclude a sales contract until he moves out of the property.
- b) **An agent works for the benefit of the buyer:** the agent searches for suitable real estate for the client that the latter wants to buy or hire, and helps the latter to conclude a transaction, for which he receives a commission. The tasks of such an agent are the following:
- Finds suitable properties that meet certain conditions in the desired neighborhood or part of the city, according to a certain price.
  - Coordinates and organizes visits to appropriate real estate.
  - Helps the buyer (the lessee) to prepare an appropriate offer when the latter decides which property fits him.
  - Carries out the transaction.
  - Submits and explains the necessary documentation.
  - Coordinates visits of potential buyers, reports and transactions.
  - Reports on what needs repairs.
  - Helps with the price.
  - Helps the buyer to conclude the deal.

### 7.8.1.2. Contract with a real estate agent

Regarding real estate brokerage in Slovenia, there is a special law, the Real Estate Brokerage Act (accessible at PIsrs). The contract on brokerage in real estate transactions is regulated in Article 13 of this Act.

- General rules of the law of obligations apply.
- By a written agreement on real estate brokerage, the real estate company (the intermediary cooperates directly with the clients) undertakes to seek to find and contact a third party, and negotiate a contract with it the subject of which is the real estate, while the client undertakes to pay for brokerage if the contract is concluded.
- Duration of the contract must be determined by the contract itself. It can be concluded for a fixed period, but no more than 9 months.
- Contracting parties can cancel the contract at any time, unless it is contrary to the principle of good faith and honesty.
- Contract must contain:
  - o Name and surname of the intermediary who will carry out the forwarding operations.
  - o Amount of the payment, in principle, may not exceed 4% of the value of the transaction, unless it is a real estate worth less than € 10,000.
  - o Description of the costs of individual transactions.

- Type and description of possible additional costs.
- The right to payment.
- Indicative price quotations for real estate.
- Description of the real estate which is the subject of mediation.
- Duration of the contract

## **7.8.2. Important / Exceptions**

### **Consumer protection against unfair business practices**

There is an extensive harmonization of consumer law at EU level, i.e. their protection, which is also directly implemented in the Slovenian legal order. Consumer protection dictates the ban on unfair commercial practices, so at all costs refrain from using the latter!

There are three groups of prohibited practices:

1. Absolutely prohibited commercial practices:
  - False presentation of the transaction as approved if the approval of the Ministry or some other state authority is required.
  - Misleading the consumer.
  - Misleading content showing untrue consequences.
  - Ponzi schemes.
  
2. Misleading acts or omissions. These acts or omissions cause the consumer to be misinformed on the economic situation, causing him to decide otherwise precisely because of these acts or omissions.
  
3. Aggressive practices, aggressive advertising or exploiting consumer knowledge, which influences the decisions of the latter.

### **7.8.3. Tips from the professionals**

Because FDI advisors do not have a license to broker in the sale or purchase of real estate, they can only provide the investor with information and then refer him to a real estate agent.

However, FDI advisors can try to lower the price of an agent's service for a foreign investor due to the information they have obtained for them.

## 7.9. ADDITIONAL READING

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(12 November 2018)

## 7.10. QUIZ AND EXERCISES

### Quiz

1. Which of the following do not indicate the entitlement arising from the substantive right to real estate?
  - a) Own a real estate.
  - b) Exclude others from encroaching upon real estate.
  - c) Encroaching upon foreign real estate.
  - d) Sell real estate.
  
2. Which of the bellow statements does not pertain to real estate?
  - a) Land and everything that is permanently and firmly connected to the land.
  - b) Cars on the land.
  - c) Trees on the land.
  - d) Water springs or water on the land.
  
3. Which of the bellow statements does not represent a form of ownership of a real estate?
  - a) Full ownership.
  - b) Transferable ownership.
  - c) Rent or lease.
  - d) Joint ownership and common property.
  
4. How is it necessary to exert a legal interest in checking the land register?
  - a) No legal interest is required.
  - b) With a sales contract.
  - c) With the permission of the owner of a real estate.
  - d) With a proof of the purchase of a real estate.
  
5. The right to property over a real estate may be acquired in several ways. One of the bellow is not correct. Which one?
  - a) Gift contract.
  - b) Inheritance.
  - c) Possession by use.
  - d) Long-term lease.
  
6. What is the rate of sales tax on real estate?
  - a) 2%
  - b) 20%
  - c) 25%

- d) The rate depends on hereditary orders
7. When is VAT charged instead of a real estate turnover tax?
- a) When any legal entity sells a new property or new construction.
  - b) When a taxable person sells a new property or new construction.
  - c) When a natural person builds a new property.
  - d) When a property is purchased by a foreigner from an EU Member State.
8. Under what conditions can a citizen of Canada acquire property right?
- a) Under the same conditions as a citizen of Slovenia.
  - b) Equal to Uruguayan nationals.
  - c) Provided that the Ministry of Justice issues a decision on the existence of reciprocity.
  - d) Provided that the property right has been entered in the land register.
9. What is the registration of a property used for?
- a) Verification of possible misconduct in the field of real estate.
  - b) It helps the country in the sale of real estate.
  - c) Records of rights over real estate.
  - d) Helps in real estate transactions.
10. Which data is not included in the Real Estate Register?
- a) Data on the real market value of the property.
  - b) Data on land registered in the Land Cadaster.
  - c) Data on buildings and parts of buildings recorded in the building cadaster.
  - d) Information on the owners.
11. Why is it necessary to check the data in the Real Estate Register?
- a) For possible compensation for financial loss in case of abuse, fraud, if the data in the register is taken from the cadaster or land registry.
  - b) To acquire ownership of real estate.
  - c) To verify that the relevant taxes that arise when the ownership of a property is changed are paid.
  - d) To view the appearance of selected property.
12. Which of the following does not represent one of the four basic forms of real estate?
- a) Residential property.
  - b) Commercial real estate.
  - c) Real estate for special purposes.
  - d) Organizational real estate.

13. Which of the following represents a form of investment in the real estate market?
- a) Real estate insurance.
  - b) Cultivation of land.
  - c) Resale of real estate.
  - d) Harvesting.
14. Which of these instruments will not be sufficient to obtain funds for investing in real estate?
- a) Loan insurance at an insurance company.
  - b) Mortgage.
  - c) Mortgage insurance at a bank.
15. Which of the bellow does not represent a person who plays a fundamental role in the real estate market?
- a) Owner of the property.
  - b) Real estate manager.
  - c) Real estate financier.
  - d) Real estate renter
16. What are the two main types of property value?
- a) Market and mortgage value.
  - b) Market value and useful value.
  - c) Useful and mortgage value.
  - d) Mortgage and insurance value.
17. Which of the following does not cover the process of appraising the property?
- a) Determination of the size and age of the property.
  - b) Determination of potential mortgage burden.
  - c) Determination of average annual water consumption.
  - d) Determination of the types of real property rights that are subject to appraisal.
18. Which of the following is not a factor that would affect the valuation of the value of the property?
- a) Property condition.
  - b) Location.
  - c) Upgrades and improvements.
  - d) Simplicity of the purchase procedure.
19. Which of the above does not represent a professional method of valuing property value?
- a) Lease method.
  - b) Method of comparison of the selling price.
  - c) Cost method.

d) Income method.

20. Which of the above does not constitute the basic form of a real estate contract?

- a) Sales contract.
- b) Contract on advising in real estate appraisal.
- c) Lease contract.
- d) Contract with a real estate agency.

21. What does a sales contract for real estate not normally contain?

- a) Prices
- b) Customer identification.
- c) Signatures.
- d) Photographs of real estate.

22. Should a sales contract be verified?

- a) Yes, it must be certified by a notary, because only by such a contract can the transfer of ownership in the land registry be carried out.
- b) Depending - it must be certified when the parties can not agree on the value of the real estate.
- c) Depending - it must be certified when the investor is a third-country national.
- d) No, these contracts do not need to be verified.

23. Which of the following does not belong into a lease contract?

- a) Identification code from the owners ID.
- b) Type of lease by category of rental housing.
- c) Provisions on the mutual obligations of contracting parties in the use and maintenance of housing and common parts of an apartment building or multi-dwelling building.
- d) The way of transferring the dwelling.

24. What is the primary task of a notary?

- a) Attend the signature of the contract, verify the signatures, and warn the clients of the consequences of the contract.
- b) Verification of the value of a property.
- c) Prepare contracts that relate to the purchase of a property.
- d) Prove the value of a property.

25. Which of these documents does not require notarial certification?

- a) Real estate purchase contract.
- b) Contract that provides for car sharing.
- c) Real estate gift contract.

d) Document granting easement.

26. What is the consequence if a document is not notarized when the law so requires?

a) Nullity or disputability, depending on the form of the contract.

b) Fine for all signatories of the document.

c) Fine for the owner of the property.

d) Criminal charges against all the parties involved.

27. Does a real estate agent need a license?

a) No, he only needs work experience.

b) Yes, the license must be obtained from the Ministry of the Environment and Spatial Planning.

c) No, he only needs to be employed by a real estate agency.

d) Yes, the license must be obtained on the basis of work experience at any public educational institution.

28. What are the main tasks of a real estate agent?

a) Brokering in the purchase of real estate.

b) Prevent fraud and abuse in the purchase of real estate.

c) Finding the possibility of obtaining financing for the purchase of real estate.

d) Verification of documents required for the purchase and sale of real estate.

29. Which of the following is one of the basic characteristics of a brokerage contract?

a) The amount of income tax for real estate.

b) Provisions on the amount of travel expenses of the client.

c) Provisions on the commission for a real estate agent.

### Exercises:

#### Exercise 1:

As an advisor to a potential investor, you need to be aware of the rights that real estate owners have. Write down the rights and try to determine what potential problems a real estate owner may encounter upon their enforcement.

Write down the answer:

Exercise 2:

In one of these laws, find out who is leading and maintaining the land cadastre, building cadastre and register of real estate in Slovenia.

Write down the answer:

Exercise 3

Calculate the amount of inheritance tax for a person who inherits a real estate after an uncle. The property value is 150,000 EUR.

Write down the answer:

Exercise 4

Fill out the application for the determination of reciprocity for an imaginary foreigner who comes from China and wants to buy real estate in Slovenia.

Specify which documentation is required as attachment to the application.

Write down the answer:

#### Exercise 5

On the websites of the Surveying and Mapping Authority of the Republic of Slovenia, find out what is the procedure for registering a business entity for access to the Real Estate Register.

Write down the answer:

#### Exercise 6

Check the web for at least three sources that could be used to search for real estate for a foreign investor who wants to earn with a real estate resale.

Write down the answer:

#### Exercise 7

List the greatest risks in investing in real estate and ways of reducing each of them.

Write down the answer:

#### Exercise 8

A foreign investor, a winter sports enthusiast, turned to you with the idea of buying an apartment in Jesenice.

Apartment details:

Construction: 1972, adaptation 2016

Area: 72.50 m<sup>2</sup>

Type of accommodation: 3-room apartment in 3<sup>rd</sup> of 12 floors

Price: EUR 85,000

What would the you advise to the investor? Would you lead him to sign a sales contract? If so, how would it be drawn up?

### Exercise 9

Check how much a foreign investor will need to pay in the process of notary's verifying the signature for a purchase contract.

Write down the answer:

### Exercise 10

What are the fundamental differences between a real estate agent and a real estate company?

Write down the answer:

## Module 8: BASICS OF COUNSELLING AND NEGOTIATION

Various skills and techniques are needed when providing advice, information and/or knowledge for foreign investors, including negotiation and communication ones.

This module will introduce you the relevant basics techniques and skills, useful further readings and recommendations for their further development on an individual basis for you and your students.

### Glossary

**Adviser** - a person qualified to provide advice and/or advisory services.

**Advising** - a process of enabling to make choices; it does not include giving advice

**Client** - a person seeking advice.

**Communication** - the imparting or exchanging of information by using verbal (conversational) or nonverbal (physical) signs/movements.

**Empathy** - the ability to understand and share the feelings of another.

**Facial expression** - motions or positions of the muscles of the face.

**Giving advice** - a process in which an adviser talks less and immediately gives a lot of information.

**Gesture** - a movement of part of the body used to express an idea or meaning (non-verbal communication).

**Interlocutor** - a person who takes part in a conversation or dialogue.

**Negotiator** - a person who negotiates.

**Nod (head)** - a nod of the head is a gesture in which the head is tilted in alternating up and down and in many cultures (but not universally, i.e. Greece) it indicates agreement, acceptance or acknowledgment.

**Mirroring** - the behaviour in which one person subconsciously imitates or consciously attempts to emulate the gesture, speech pattern, or attitude of another.

**Personality** - the combination of characteristics or qualities that form an individual's distinctive character expressed through behaviour.

**Tolerance** - the ability or willingness to tolerate the existence of opinions or behaviour that one dislikes or disagrees with.

**Personality** - a set of characteristics that distinguish an individual and are shown through his/her behaviour.

## 8.1. COUNSELLING SKILLS

This Unit is designed to introduce counselling skills and techniques to the learners. You will learn about the knowledge you need to pass to the potential FDI advisors to make them:

- understand the profession and role of the adviser,
- identify the difference between advising and counselling,
- apply basic counselling skills and techniques.

### 8.1.1. Overview / Theoretical framework

#### Introduction

PROFESSIONAL ADVISER is an expert who is professionally trained and qualified to give information, explanations and advice in specific areas or for specific needs to an individual, group of people or organization. He is an expert in a particular area, capable of offering swift and comprehensive insight and complex services, while in other areas he is professionally trained or instructed to the level of expertise required for providing services. In the case of more complex services that are not in his area of expertise, a professional adviser uses and/or proposes the services of other professionals.

An adviser helps in research, planning, decision-making and implementing of decisions by providing information and suggestions, staying neutral, objective and focused on the ultimate interest of his client.

FDI ADVISER has certain additional roles. He is an expert professionally trained and qualified in specific areas to provide information, explanations and advice, and can offer advisory services to people across different linguistic, cultural and geographical regions. The communication sensitivity that prevents any misleading interpretation is hugely important. Cultural diversity should always be taken into account, with special attention to differences in education, age, gender, as well as in a political, religious and racial affiliations.

Giving advice and advising/counselling are two different processes.

**Giving advice** is a process which involves less listening than talking, instant response to questions, explaining, giving directions and information.

**Advising/counselling** is a process which involves more listening, asking and not talking, as well as helping the client to reach the point where he is capable of finding his own solutions by implementing certain techniques.

#### Example:

**One** financial adviser can use his **professional expertise** to help his clients to manage and increase their assets.

**Another** financial adviser, using his **counselling skills**, can help a client to secure financial independence (empowering him or her to become more confident and realize what he or she wants).

A Foreign Direct Investment adviser (FDI advisor) is an ideal combination of both, as he is qualified for both giving advice and counselling.

## **ADVISER'S SKILLS AND TRAITS**

The counselling skills are not only acquired through knowledge but through experience as well. Skills on their own are not sufficient to allow the adviser to successfully complete the counselling process to the client's satisfaction. The adviser should also possess certain traits that, in addition to the acquired skills, make him an accomplished expert.

### **Important adviser's skills and traits are being:**

- communicative,
- calm,
- neutral,
- sensitive to ethical values,
- considerate,
- friendly,
- tactful,
- curious,
- objective,
- polite,
- witty,
- relaxed,
- resourceful,
- adaptable,
- with positive attitude,
- influential,
- pleasant-looking.

A skilled adviser who intends to gain the trust and confidence of the client needs to have additional qualities:

- organizational skills in gathering and sharing information with the client
- responsibility for the accuracy of the gathered and shared information
- good connections with experts and institutions outside of his own area of expertise.

The basic counselling skills include: listening, empathy, understanding, focusing on the client, tolerance, consideration, broad-mindedness, ability to cooperate and accept, broad culture, fresh and ongoing curiosity, interest in the client, understanding personality, good verbal communication, accepting responsibility, excellent memory, awareness and expertise in the field in which counselling is provided.

Listening is the main skill. It is the most important activity, consistently applied throughout the entire counselling process.

## **Listening**

Listening skills are taught. The high art of efficient listening is obtained by training and experience. Professional listening is not the simple process that is commonly used in everyday communication.

Listening means paying full attention to the client, being mindful and fully focused not only on the client's words, but also on the message conveyed through them. Listening also includes paying attention to body language and facial expression.

Listening leads to asking the right questions at the right time. By asking the right questions, the client is encouraged to specify and expand his verbalised ideas.

Listening means paying attention to every little detail, and the most important thing in listening is to learn how to remain silent, how to observe, and how to ask questions in order to get all necessary information.

## **Paying attention and asking questions**

Questions should not be asked in advance. They should be related exclusively to what the client just said. The adviser has to wait patiently for the client to move on to another topic.

If the client does not go to a new topic, the adviser should write down any questions related to that topic and pose them at the end of the client's presentation. The adviser should also not suggest to the client to move on to a different subject prematurely. Otherwise, the client may lose focus and miss some important information.

Issues related to the subject that the client has not spoken about should be asked at the end of the presentation only if the adviser is missing crucial information that could help him/her to explain a topic to the client in greater detail or to answer the latter's questions.

Jurković M. (2017) lists seven different types of questions which can be asked, however, one must have a clear idea why a certain question is formulated in a certain way and at a particular time.

**Open questions** are usually used to encourage the other person to open up so that you can collect the information you need (they often start with why, what, where, and how).

**Examining questions** can be used to clarify something that has already been said, or to learn more about the subject. This form of questions can be useful in creating relationships, but it should not be overused, as it may make the interlocutors feel uncomfortable as if they were questioned or even attacked.

**Closed questions** require the answer "yes" or "no".

**Reflecting questions** are often used to check and clarify one's own understanding. This style sends the question back to the speaker and to what he has just said, while allowing the

interlocutor to fully analyse all the information received and his own knowledge on a particular situation.

**Main or suggestive questions** should be used with caution because they indicate that certain answer should be given in response, which is contrary to the concept of active listening.

**Hypothetical questions** allow an assessment in what way a person could respond or what he/she thinks about a possible situation.

**Paraphrasing questions** are one of the best ways to check one's own understanding of the information received from the speaker.

The quality questions will result in quality answers and information, which will help adviser to offer good solutions. When asking questions, the adviser should use **vocabulary understandable to the client** in order to make sure that the client understood the questions. Questions should not be too personal even if they might be related to the current client's situation. During the client's presentation, the adviser should ask only about the information required for providing proper guidance and answers.

After the presentation, the client should first receive the information and answers related solely to the areas of his interest. Later, the adviser can ask additional questions in order to **redirect** the client to additional areas and possibly offer some other options, ideas and solutions.

#### Premature answers

By offering a quick response during the interview the adviser disputes and undermines the seriousness and complexity of the client's project.

In those cases, the client may get an impression that the adviser considers his plan or project to be simple, insufficient, incomplete or even insignificant. The client may also think that he has received quick, superficial and incomplete answers from the adviser. That could result in the client becoming insecure and doubtful.

Quick and premature answers by the adviser show his lack of expertise and awareness. It would be more professional to ask additional questions and to listen.

Only after the client completes his full presentation, may the adviser provide him with information and solutions. The client will then accept adviser's help with more confidence, knowing that he has received all the necessary information and has obtained full insight into a problem. The client will be assured that the adviser has listened carefully to the whole conversation and that he will offer complex solutions, advice and instructions.

The adviser should keep in mind that the client is a foreign investor whose decisions and further steps should protect and enhance his investment, on which depends not only the safety and quality of life, but also of all future participants and their families.

That is why it is crucial to listen carefully and to gather as much information as possible.

## **Empathy - Understanding – Acknowledgment**

Empathy is the ability to understand and share the feelings of another. Empathy is learned over time. It is neither sympathy nor highlighting one's own emotional state. With empathy we show our concern and understanding for the client's situation.

By showing empathy, the adviser **sends a message** to the client that he put himself in his situation and therefore he is able to consider the ideas and motives in the same way the client does.

By nodding, smiling, writing notes or by verbal confirmation, the adviser makes clear that he fully understands the client's most important information, wishes and needs.

The adviser has to clearly **confirm**/verbally repeat the key information received from the client in order to ensure him he was listening carefully and fully understood her/him.

The acknowledgment of the client's information indicates care and respect for him/her and proves that the adviser is doing his job responsibly. By acknowledgment, the adviser confirms that he/she cares for others.

Unclear parts of the conversation should be clarified - the adviser should repeat them and ask the client to confirm that he understood everything correctly. Only after the confirmation can the adviser ask additional questions in order to receive more information which the client possibly forgot to convey.

### **8.1.2. Important / Exceptions**

The adviser is personally responsible for his own **emotions**. He cannot allow emotions to control his counselling at any moment. Mutual reactions are of crucial importance.

### **8.1.3. Tips from professionals**

Positive, i.e. correct reactions are learned through exercise. The adviser should always be in charge of the situation regardless of anything unexpected or unpleasant happening during the counselling session. The adviser should always have the freedom to lead a conversation in an appropriate direction.

## 8.2. COUNSELLING IN PRACTICE

This Unit is designed to introduce you the practical counselling skills and techniques. It will familiarise you with the Advisor's role in the counselling process and the client's possible motives and reasons.

After acquiring knowledge from this Unit, you will be qualified to teach potential FDI advisors to:

- apply body language in counselling,
- apply basic communication and speech in counselling,
- apply other counselling skills and techniques.

### 8.2.1. Overview / Theoretical framework

#### Introduction

Clients seek help from FDI advisers for two reasons:

Some of them have already made a decision and know exactly what they want but need advice and help to accomplish it. The adviser should approach those clients in a very simple and direct way. It is assumed that those clients will provide the adviser with accurate and precise information and present their needs and wishes. Once the consultant listened to the client and got all the necessary information by asking additional questions, he/she would be able to provide the client with all the necessary information and offer him solutions.

The brief listening session will most likely be followed by constructive conversation.

Another category of clients wants "something" and knows only approximately what that would be, but they are not sure about it until they obtain all the information. Therefore, they investigate different possibilities: who? how? and where? The adviser should apply his/her best listening and communicational techniques to those clients. He should also gain insight into the clients' motives in order to be able to help them find ideas and solutions.

#### Motive for seeking advice

Several different motives for seeking advice:

Some investors are motivated only by the expansion of their market and profits, so they are focused solely on **business**.

Others want to invest in real estate for **personal reasons**, for the purpose of residence, family reunion and pleasant casual or permanent stay.

The third type involves clients who already reside in the host country and therefore **seek ideas**

and opportunities to invest in certain jobs in order to be able to afford a longer stay. It is possible that the adviser would be contacted by the investor's family members for the same reason.

### **How to help a customer to create a job?**

Some clients would be happy to do "anything" because they want to become independent or to be able to stay in the host country. They have some financial resources but have no business ideas or are not familiar with legal or personal possibilities. Some of them may have unrealistic plans or unachievable objectives that need to be analysed and adapted.

The adviser can help the client by setting up targeted questions. The client should write down questions and answers in order to get an insight into the full picture of his abilities, wishes and needs. That might help in creating business start-up ideas.

### **Some questions for developing business start-up / job creation ideas that FDI advisor should ask the client to answer:**

#### **Which knowledge and skills do you have? Which activities do you enjoy?**

Knowledge gained through education?

Skills gained from previous experiences?

Which of your skills you have not used so far?

Knowledge of foreign languages?

Do you have a hobby?

Artistic talents (writing, painting, music)?

Internet and computer proficiency, familiarity with internet based tools?

Do you drive (car, motorbike)?

What do you usually do in your spare time?

What do you like to do the most?

What are your friends and family members doing?

Provided you have enough money and experience/knowledge, what would you most like to do?

#### **Possibilities – do you have:**

Business space?

Available finances?

Possession of existing equipment?

Skills managing finances?

Time?

#### **Other – what do you like / prefer:**

Independent work or a team work?

Indoors or outdoors?

Travelling?

Jobs that requires a lot of thinking?

Administration (working with documents)?

Sorting, stacking, neatness?

Manual work?  
Working with machines?  
Working with data?  
Driving by car?  
Working with animals?  
Working with people?  
Which categories of people: men, women, children, youth, elderly people, etc.?  
Troubleshooting?  
Organising?  
Talking to people?  
Helping people?  
Teaching?  
Guidance?  
Decision making?  
Influencing people?  
Taking risks?

The analysis of questions and answers would provide the platform for decision making. In the next step, the adviser will establish a list of possible jobs and activities that fit into the answers provided. When the client narrows a selection of job start-ups, the adviser will help with suggestions, solutions and all the necessary information to start a business.

In order to help the client in making the final decision, in this phase of counselling the adviser for direct foreign investments also offers information that are usually used to attract foreign investors, thus further encouraging and directing the client to make the final decision of launching a business in the host country (for example promotion of the quality of life in Slovenia).

## **Place**

A carefully prepared meeting place can help greatly in maintaining concentration especially in the case of a less experienced adviser. It is very important to remove everything that could cause distractions - outside noise, radio, phones, other people, unexpected visitors, objects in front of the adviser and behind the client.

It is desirable to use armchairs, so that both the client and the adviser can relax. If chairs without armrest are used, they should not stay too close to each other so that the clients would not have to cross/move their hands in order to avoid touching. By crossing hands or pulling them backwards people are automatically shunting/withdrawing from communication.

## **Time control**

Time is very important as it is precious and irreplaceable. The power is in the hands of those who control it. Time should be well-planned and others should not be allowed to waste it.

If the adviser lets the client divert from the topic, this extends the scheduled meeting time by introducing subjects that are not beneficial, therefore the time is wasted for both parties. As a person who leads counselling, the adviser should be the one who evaluates the productivity of time.

Adding some extra time in conversation is not beneficial to either the adviser or the client. The client will get tired or overwhelmed by too many information. The adviser should evaluate whether to extend ongoing meeting or to schedule another one.

## **Conversation**

To communicate does not mean to talk, but to converse. It is the ability to focus on the interlocutor, the ability to listen, respond and suggest.

It is necessary to take care of the client's needs and to direct the conversation towards his wishes and needs. The client must feel that she or he is **important**. Only then will they become willing to listen.

Excessive remarks or examples should be avoided, as well as the adviser's personal examples and problems.

If suddenly there is silence or the adviser does not have the answer ready, the client should be given a general question which would allow him or her to move on to another topic. The client will open the topic that matters to him or her.

A good advisor should keep the conversation alive, not too slow and boring or interrupted by long pauses. It should also not be jumping from one unfinished topic to another. On the other hand, a conversation should not be too intense, fast, disturbing or too loud. The adviser should know how to calm the client if he is upset or disappointed with the unexpected answers.

A skilful communication can also result in the client, although not completely satisfied with the answers, leaving completely satisfied with the adviser's services.

In communication, the adviser must keep in mind that both parties are equal interlocutors and that none of them should take over the conversation.

## **Mirroring**

Some clients might be excited and at the same time have fear of the unknown, some are uncomfortable with the idea of making decisions, and some are probably too decisive or worried that they cannot immediately get all the information. Some are not happy because they cannot get the quick answers or the solutions they are used to get in their countries of origin.

The advisor must not allow to be affected by the client's mood as people tend to mirror each other.

The advisor should remain calm, relaxed, confident and should keep on assessing how his body language will mirror the client's mood and when the latter uses certain behaviour, he/she needs to redirect him into a positive direction.

If the advisor intends to redirect the client towards a positive direction, he should inform the client beforehand that he understands the client's current condition. As soon as the advisor is relaxed, the client will relax too.

The advisor needs to mirror his message to the client. Mirroring should never show what the advisor assumes that the client feels.

### **The client's body language**

The client's behaviour should not distract but rather help the adviser's concentration. With his body language and facial expression, the client emphasizes his information. A body language is a powerful tool that helps the adviser to realise what is very important to his client, what he is emotionally attached to, what the areas of his confidence and doubts are, what he is afraid of, which are the issues he is insecure, worried or excited about. All these are signals that indicate the client's real needs, wishes and plans, as well as his personal attitude or expectations. Body language partially reveals the character and personality of the client.

### **The advisor's body language during listening**

With his manners and certain movements, the adviser should **draw the attention** of the client and at the same time show his concern, professionalism, courtesy and full attention.

The adviser should be relaxed, leaning backwards. He should not fold hands because it sends a message that he is not open to information or that he disagrees with the client. His notes should be kept away from the client so that they would not distract him. On the other hand, by writing notes, the adviser shows that he/she is listening carefully, recording all the information and that they have the same importance to the adviser as to the client himself.

Every once in a while, the adviser should lightly nod to reassure the client that he/she actively follows the conversation and understands everything. At the same time, he/she should use the confirmation words "yes", "understand". He/she can also use words or questions that would encourage the client to expand or clarify information: "tell me more about it".... "for example" .... "what do you mean by that?" .... "why do you plan that?".

If the client leans towards the adviser, the adviser should lean towards the client. If the client becomes impatient, the adviser should lean back, relax and smile. The adviser should not frown if he/she did not understand or agree with something. He should ask an additional question or write it down and then later on ask for an explanation or express his/her opinion about the matter.

His/her hands should always be kept slightly opened. This symbolises an open space that should invite the client to relax, show trust and bring his/her ideas, thoughts and feelings forward.

The adviser should be aware of moments when it is appropriate to smile. It is also not advisable to rest his/her head on hands, to scratch, roll a pen in his/her hand, play with an object, or watch what is happening around him/her while listening.

The attention of the adviser should be entirely focused on the client and the notes.

Every once in a while, the adviser should check whether he/she sits upright and relaxed.

## **The adviser's body language during giving advice**

While talking and giving information to the client, the adviser often uses his/her hands. When he/she wants to show to the client where to sit, where to look or what to pay attention to, the palm of his/she hand should always be facing **up**. The palm facing down signalises authority and superiority, while finger pointing signalises aggression. Both gestures are considered rude.

The hands should indicate calmness, relaxation, readiness to listen and communicate. If the adviser has to show data on the board or paper, a pen should be used instead of a finger or a whole palm. By raising a pen, and never fingers, the client's attention can be redirected to another area.

## **General impression**

### **Hands**

Handshake is a very important gesture. One should always use one hand only. The handshake needs to be adjusted to the client's style and strength. Documents, folders and briefcases are always kept in the left hand so that the right hand can be free for a handshake, for showing direction to the client, for moving the chair, for greeting, etc.

The hand (fingers) on the cheek will convey a positive acceptance. All other gestures in which hand touches the head are not a positive sign.

### **Dress code**

Dressing should be appropriate, neither too relaxed nor too formal. Fashion is changing together with time, but different countries have different customs. The eye is always the first to see and judge. The adviser's main goal is to approach the client at the same level. Therefore, dressing should be moderate, in order not to distract the client or put him off.

The client should not feel inferior because of the adviser's excessively expensive or inadequate appearance. One could get the impression that the adviser is hiding his incompetence behind the "picture of a successful person".

The client should also not get the impression that the adviser does not care at all about how the client will perceive him/her and that he/she does not care about his/her appearance. Ignoring an appropriate dressing code tells the client that he/she is not important. The client might get the impression that the adviser has an extremely high opinion about him-/herself and therefore is not bothered with his/her appearance, thinking he/she is superior due to his/her information and knowledge.

## **Giving advice**

After the adviser heard the client, collected and recorded all the information, clarified and received the client's confirmation that everything was correctly understood, he/she can start offering information and answers.

The adviser advises the client by:

- providing detailed information in accordance with the topics the client was talking about;
- suggesting directions and guidelines about taking next steps;
- delivering the facts and necessary information which would enable the client to make a decision.

It is important that the adviser has **carefully** listened and clarified all possible doubts. He/she does not have to always have a ready answer. Sometimes he/she will have to seek a solution from an expert. The client will be satisfied if he/she gets some answers immediately, together with the dates when he/she will obtain answers to other questions, accurate instructions about receiving further expert assistance and more information.

## **Making decisions**

The adviser must not make decisions for the client. Instead, he/she helps the client to make his/her own decisions. However, if the client persists in the attempt to make the adviser his/her decision-maker, the adviser's duty is to help the client make his/her own decision by asking him/her additional questions, providing some additional information and indicators. If the adviser skilfully explores the client's motive, this will be an excellent guideline for the answers and the solutions he/she would offer.

**THE BASIC RULE: The adviser provides information and solutions, the client decides.**

If the client is still hesitant, it means he/she is either scared to make decisions or is unsure due to lack of information. In that case, if the client is not exhausted due to any kind of emotional pressure or overloaded with excessive information, the adviser will repeat the information and point out to possible solutions and answers. Otherwise, he/she would suggest a new meeting.

Regardless of the amount of pressure the client puts in his/her effort to persuade the adviser to make a decision for him/her, the adviser should always strictly follow the basic rule: The adviser provides information and solutions, the client decides.

### 8.2.2. Important / Exceptions

The adviser does not have to be an expert in all areas. He/she is not a magician and does not have to know all the legal regulations and their current amendments but is obliged to **check** on all changes or to consult with an expert before giving the information to the client. However, if the adviser is an expert in a particular area, then he/she needs to **regularly update information and continue to learn**, and to be ready to independently and correctly advise the client. A responsible adviser will always contact a specialist for the areas he/she is not qualified for or does not have sufficient experience on.

**The adviser for direct foreign investments** is the person whom the investor needs to trust and can contact not only in the initial phase, when deciding on the investment, but also the person whose counselling services he/she can use occasionally or permanently for the duration of his/her stay or work in the host country.

The adviser for direct foreign investments should be a **link** between the investor and other key professionals, while at the same being able to provide as much basic information as possible on his/her own.

The role of **the adviser for direct foreign investments** is **demanding, complex** and **responsible** as it encompasses a large area of activities for which the following is needed:

- extensive knowledge;
- active daily awareness;
- monitoring of administrative changes;
- monitoring of legal regulations;
- following market trends;
- active co-operation with other experts from the field of counselling;
- fluency in foreign language/languages.

### 8.2.3. Tips from professionals

Communication with an individual with limited communication ability (individuals in stress, under crisis, with emotional difficulties, hearing or speech impairment, visually or other physically impaired persons) should be adapted to the interlocutor (loudness, vocabulary, questions, body language and environment need to be adapted depending on the interlocutor's limitations (possibility of moving, approach, lighting, noise...)).

The complex role of the FDI adviser includes an excellent knowledge and awareness in all areas of the foreign investor's interest which would help him/her to make the final decision.

If a foreign investor has the opportunity to obtain information about:

- type, procedures and costs of opening a company;
- legislation requirements and the costs regarding running the business;
- accounting;
- real estate investments;
- labour market offers and conditions and employment conditions;
- procedures and conditions for obtaining work and living permit and family reunification in host country;
- the possibilities of using loans and EU funds;
- positive sides, advantages and offers of host countries;

from one person only and **all in one place**, he/she will make a decision on investing in the host country faster, safer and with more positive results.

The main objective for the FDI is a long-term satisfactory interest of both foreign investors and the host country.

## 8.3. TYPES OF PERSONALITIES

This Unit is designed to introduce personality types to the learners. It will familiarise you with different types of personality and personality blends.

After acquiring knowledge from this Unit, you will have the knowledge to teach future FDI advisors to:

- recognize personality types,
- adapt to different personality types.

### 8.3.1. Overview / Theoretical framework

#### Introduction

Personality is the combination of characteristics and qualities and includes: temperament, intellect, physical appearance, character and behaviour that are pertinent to a specific person and form an individual's distinctive character. The individual shows personality through the way of accepting the environment and through the way of representing himself/herself in the environment.

In order to successfully approach the client and to be able to share information in a manner acceptable and understandable to the client, the adviser should recognize his personality type.

#### How to recognize the client's personality type?

Littauer (2000) describes in a simple way four basic types of personality: Popular Sanguine, Powerful Choleric, Perfect Melancholy and Peaceful Phlegmatic. Each of these four types is a unique mix of different personality traits, allowing for a full spectrum of personalities.

#### Popular Sanguine

Popular Sanguine is a cheerful, busy, excited personality type with prominent gestures; chatty, able to talk about any subject at any time, creative and entertaining, witty, charming, optimistic; he/she loves recognition, bright colours; he/she is interested in fun, activities, other people; he/she likes to be accepted, popular; he/she likes attention, praises and easily makes friends.

Popular Sanguine does not like boredom, criticism, too much data and details or a strict time

schedule; he/she does not take care of spending; he/she is often distracted, unorganized and hypersensitive.

### **Powerful Choleric**

Powerful Choleric likes to be in control; he is capable of taking leadership in any situation; he has a good sense of effectiveness; he is quick to respond, with a high self-confidence and superior attitude in behaving and dressing; he likes to command; he/she is impatient, dominant, makes fast and correct decisions, effective, trustworthy; he believes in success, likes praises and cooperates effectively with people who support him/her; he loves challenges, sensational and powerful things.

Powerful Choleric does not let others to make decisions; he does not like ineffectiveness and when things go slow; he does not like losing control over the situation and does not submit to authority.

### **Perfect Melancholy**

Perfect Melancholy is a stable, well-organized, compassionate person with high standards; he has a refined approach to others; a perfectionist, a good organizer, creative, serious and emotional, self-critical, neat, cautious, with long-term goals, sensitive to others' emotions, analytical, detailed; he seeks perfection in everything and is exceptionally interested in details; he loves serious and constructive people.

Perfect Melancholy does not like casualness, superficiality, disorder, unpredictability, indecision, low standards; he is scared of making mistakes and does not like people who are late.

### **Peaceful Phlegmatic**

Peaceful Phlegmatic is a calm, polite, relaxed, balanced, stable, unbiased and collected personality type; he does not make impulsive decisions; he is subjective, likes simplicity and relaxation, light life; he avoids conflicts and problems and easily let others do their jobs and make decisions; he is strong and steady.

Peaceful Phlegmatic does not like tension, conflicts, problems, risks, challenges, surprises, too stressful situations; he is hesitant, does not like setting goals; he is not fond of noisy and loud people; sometimes he lacks good ideas and needs to be prompted by others.

## Personality blends

Aforementioned basic personality types are combined in most cases. The most common is the blend of two different personality types that may appear in an equal proportion (percentage) or one personality type prevails.

Littauer&Littauer (2000) elaborate on four basic combinations of personality types:

**Natural blends:** outgoing, optimistic, outspoken: popular sanguine and powerful choleric. You can study their characteristic in the presented table.

<b>POPULAR SANGUINE</b>	<b>POWERFUL CHOLERIC</b>
People/relationships-oriented	Work/task-focused
Witty, easy-going	Decisive, organised
<b>Leading</b>	<b>Leading</b>
Artistic, emotional	Unemotional, strong-willed
People/relationships-oriented	Work/task-focused
<b>Outgoing, optimistic, outspoken</b>	<b>Outgoing, optimistic, outspoken</b>

**Natural blends:** introverted, pessimistic, soft-spoken: peaceful phlegmatic and perfect melancholy. Take a look also at their characteristics.

<b>PEACEFUL PHLEGMATIC</b>	<b>PERFECT MELANCHOLY</b>
People/relationships-oriented	Work-task/focused
Not goal-oriented	Goal-oriented
<b>Analysing</b>	<b>Analysing</b>
Unemotional, strong-willed	Artistic, emotional
<b>Introverted, pessimistic, soft-spoken</b>	<b>Introverted, pessimistic, soft-spoken</b>

**Additional blends:** people/relationships-oriented: popular sanguine and peaceful phlegmatic.

<b>POPULAR SANGUINE</b>	<b>PEACEFUL PHLEGMATIC</b>
Outgoing, optimistic, outspoken	Introverted, pessimistic, soft-spoken
Leading	Not goal-oriented
Witty, easy-going	Analysing

Artistic, emotional	Unemotional, strong-willed
<b>People/relationships-oriented</b>	<b>People/relationships-oriented</b>

**Additional blends:** work/task-focused: powerful choleric and perfect melancholy. You can compare their characteristic in the table.

<b>POWERFUL CHOLERIC</b>	<b>PERFECT MELANCHOLY</b>
Outgoing, optimistic, outspoken	Introverted, pessimistic, soft-spoken
Leading	Goal-oriented
Decisive, organised	Analysing
Unemotional, strong-willed	Artistic, emotional
<b>Work/task-focused</b>	<b>Work/task-focused</b>

"**The personality blend** is someone upbeat and energetic, combining the fun-loving, charming nature of the Popular Sanguine and the drive of the Powerful Choleric. The Popular Sanguine's side tones down the intensity of the Powerful Choleric side. The Popular Sanguine's wit reduces the extremely dominant need for power and fear that the world will collapse if everything is not finished today. The vitality of the Powerful Choleric will drive on Popular Sanguine to complete what he/she has started."

(Littauer F./Littauer M., (2000.), *Osobnost lagalica: razumijevanje ljudi s kojima radite*, Varaždin, Katarina Zrinski, 98-99)

### 8.3.2. Important / Exceptions

The ability to recognize personality types allows the adviser to better understand his/her client; it helps him/her to easily adjust and make his/her choice of communication, key information and the way of presenting them, which shortens the process of successful counselling.

### 8.3.3. Tips from professionals

Take the Personality plus test and propose the same to your students!

4D Media, LLC New Jersey, "*Personality plus, test According to Florence Littauer*" (online). Available on: [http://www.gotoquiz.com/personality\\_plus\\_1](http://www.gotoquiz.com/personality_plus_1) (2/20/2018.)

## **8.4. NEGOTIATION**

This Unit is designed to introduce the art of negotiating to the learners. It will familiarise you with the types of negotiation, the characteristics of a successful negotiator and the different psychological profiles of the negotiator.

After acquiring knowledge from this Unit, you will be know what to teach future FDI advisors to qualify them to:

- identify the type of negotiation,
- identify the psychological profile of the negotiating party.

### **8.4.1. Overview / Theoretical framework**

#### **Introduction**

Negotiation is a communication process intended to reach a beneficial outcome for two or more negotiating parties.

Negotiation is an art that requires knowledge, understanding and practice. Persuading and negotiating are forms of communication. Persuasion is always focused on achieving one's own goals while negotiating is aimed at the best possible outcome for both parties.

An experienced negotiator knows that the outcome will have long-term consequences for the other side.

First of all, the negotiator must clearly define his/her goals. For successful negotiations, the negotiator has to determine what exactly makes his/her position favourable or unfavourable.

The course of the negotiation may also alter if some unexpected factors such as the client's behaviour, new information, time, place or unplanned event occur. Therefore, a successful negotiator must have the ability to adapt and change his/her approach. At the same time, she or he must be able to keep moving towards the goal.

A foundation for the successful negotiation encompasses a good strategy, knowledge of negotiation techniques and body language, well-prepared topics, materials, atmosphere, early prevention of any anticipated disturbance (phone calls, visitors), as well as predetermining the lowest and the highest goal.

#### **TYPES OF NEGOTIATION**

The negotiation type depends on the motive, goal and desired or anticipated length of business co-operation. One negotiating party may try to reach either one-sided or mutual interests, or it

may be more or less ready to compromise. According to those criteria, the main negotiation types are as follows:

### **Distributive negotiation – “Win-Lose”**

In a distributive negotiation, one side often adopts an extreme position in an attempt to reach its personal goals, using a combination of pressure and blackmail, while the other side is left with no other options but to agree to less than expected. Such negotiations lead to dissatisfaction in further collaboration and partnerships, which is not sustainable in the long run.

### **Integrative negotiation – “Win-Win”**

In the integrative negotiation double win solution is achieved. Both parties seek to find an arrangement that is in the best interest of all. The negotiators are open to the agreement, they respect opinions of the other side and take into account their mutual interests. This type of negotiations guarantees a long-term collaboration.

**The "Give-Get" principle** is the fundamental principle of good negotiations. It indicates the readiness of both negotiators to give something in order to get something, which results in an equilibrium in receiving/giving.

### **Negotiations with the assistance of a third party**

There are various reasons for bringing a third party in negotiations in certain situations:

- One party is not skilful in negotiating and needs the negotiator's help.
- Both or more parties need the help of a third party (negotiator) because they differ in their opinions and are not able to reach a satisfactory outcome.
- Both sides need the help of a third party (expert, adviser) because they do not have all the necessary information.

## **PSYCHOLOGICAL PROFILE OF THE NEGOTIATOR**

The negotiator should always remain truthful to himself. If he changes his personality during the process, the other party will recognise his insincerity and fakery at the end of the negotiations. That is why it is important not to change yourself but rather your negotiation strategy or method.

It is crucial to pay attention to the personality of those who are negotiating at the other end. Identifying their personalities might help in choosing better negotiating strategies: to make a positive impact on another person, to identify motives of the other party, intentionally and unintentionally hidden, to attract more interest to their own goals and to turn the interests of the other party to their advantage, to become a more pleasant interlocutor, etc.

Petar S. (2001) classified negotiators in seven psychological types:

### **Dominant**

Dominant negotiator is rough, always wants to have control. He has a tough personality, jumping fast off the topic, ignoring arguments of the interlocutor, prone to conflict and is turning easily from negotiator into persuader.

### **Extroverted**

Extroverted negotiator has a superficial approach to negotiation. Very similar to the dominant type only he replaces roughness with speed, charm and seemingly irrelevant details, and egoism with general phrases about the common interests.

### **Introverted**

Introverted negotiator is reluctant to confide in others and have a huge tendency to control the situation. He is suspicious and doesn't like negotiations at all – on the contrary; he is trying to avoid negotiations and achieve his goals without them. A lot of patience is required in dealing with this type of negotiators.

### **Disingenuous**

Disingenuous negotiator is pleasant, polite, nice, look like unskilled negotiators who would agree on all the conditions just to bring an unpleasant situation to an end. If negotiations continue for a long time, they are extremely dangerous because they are able to turn the interlocutor into a subordinate party.

### **Actors**

Actor negotiators are glamorous, with impressive looks, seem to prefer the form of negotiating to its subject, acting as if they do not care about the final result, as long as everything looks good from the outside.

### **Philosophers**

Philosopher negotiators are keen on introducing radical changes into existing negotiating rules. They are similar to the dominant negotiators. Their main feature is unpredictability. They change their opinion and appear as if they do not know what they want, but the reality is different. When negotiating with them, one should have control, clear goals and impose the arguments as a basic prerequisite for negotiation.

### **Guards**

Guard negotiators are often conservative. They possess simple philosophy and traditional values. They take the role of the negotiators most deeply and personally. Their goal is to achieve a positive result in negotiations which will benefit both parties. If the other side crosses the limit and misbehave, they might become unpleasant.

## **8.4.2. Important / Exceptions**

Negotiator must always be true to his/her personality.

### **8.4.3. Tips from professionals**

Negotiation is a two-way process for which a successful negotiator should possess the following characteristics:

- to have the ability to adjust quickly;
- to be lenient to a certain level;
- to be open to an exchange of opinions;
- to try to think as the other party;
- to take care of his behaviour and being aware of how the other side perceive him;
- to listen to the interlocutor;
- to keep a balance between being resolute and relaxed;

and keep on applying the "Win/Win" and "Give/Get" negotiation principles.

## **8.5. NEGOTIATION IN PRACTICE**

This Unit is designed to introduce the negotiation techniques and their main features to the learners.

After acquiring knowledge from this Unit, you will be able to teach future FDI advisors to:

- use essential negotiation techniques.

### **8.5.1. Overview / Theoretical framework**

#### **Introduction**

The preparation and negotiation techniques play a very important role in the complex negotiation process. Regardless of whether it is an independent negotiator in two-way communication or if it is a third party involved in the negotiation process, it is essential to use the negotiation techniques. In practice, negotiation can take place on the street, on the bus or at any other place, but that will certainly not be the case in a business negotiation involving complex structural elements.

#### **Steps in negotiation process**

##### Preparation, goals and facts:

The negotiator needs to know exactly what he or she wants. In accordance with his/she wishes and needs, he/she should set the highest and lowest goal and stick to them. This helps in preparing the strategy that would keep him/her within the given framework during the negotiations. It is advisable to set a higher goal in order to make compromises. The negotiator should know what the other party wants so that he/she would be able to mutually compromise within the given frames. If the negotiations reach the lowest point and the negotiator is forced to compromise further, he/she must say "no" and give up.

#### **Negotiation techniques**

The conditions for a high-quality and unobstructed negotiation are ensured by implementing the following negotiation techniques.

##### **The space for negotiation**

###### Psychic space

A reasonable space between the negotiator and the interlocutor should secure a decent distance. Getting too close can create an unpleasant feeling with the interlocutors.

Negotiation indoors requires a neat, clean and warm space. The room should not be transitory. If it is too small, it can create a sense of anxiety and discomfort, and if it is too big, it can create a sense of distance (disconnection) in the interlocutors.

### **“Reading” the interlocutor**

“Reading” the interlocutor implies: searching for the real meaning behind the words spoken, active listening and observing the body language.

### **Conversation control**

Voice Control: Behaviour of the other party in the negotiations will affect the voice of the negotiator. The voice reveals real emotions (uneasiness, fear, indecision, premature joy etc.). One should listen to their own voice and try to control it. Thoughts and voice should stay in harmony.

Proper use of the voice leads to more successful negotiations.

Speech Control: Speech needs to be understandable and appealing. It is important to stress/emphasise the key words. The vocabulary should also be adjusted to the interlocutor. It is better to avoid redundant words and take into account the dynamics of speech (speech speed and pauses).

### **Notes and conclusions**

In most cases, it is necessary to keep notes while negotiating instead of trying to recall the details later. Compared to the speed of speech and thoughts, the notes are slower. That is why both negotiating parties should check them from time to time. The written conclusions made during the conversation confirm the safety of the facts agreed.

### **Neutrality**

As agreements in the negotiations are progressively established, they must be confirmed by neutral remarks ("This is good. ", " We will come back to this later", etc.). The conversation should be focused on the terms and conditions of the negotiation.

### **Variability**

Everything is variable, including the interlocutor's fixed condition. The negotiator should neither give up nor immediately accept the new condition. Instead, he/she can buy time by writing notes, phoning, delaying. This time can be used for coming up with new elements, preparing to ask additional questions, etc.

## **Preparation of a conclusion**

The largest part and the final phase of the negotiations is the preparation of a conclusion. If both parties met their interests, the negotiation was successful and is likely to repeat in the future. The conclusion point will be reached only if both parties benefited from the negotiation.

## **Developing trust**

If the negotiator feels important, relaxed and satisfied, if he is convinced that he is trustworthy, competent, well-organised and efficient, he will also be able to convince the interlocutor.

The negotiator must not be mysterious, should not leave the interlocutor in suspense, create tension, discomfort, anxiety, addiction, fear, stress, and must not encourage aggressiveness.

A good negotiator is familiar with different psychological types, so he attends negotiations relaxed, free of all other thoughts or prejudices, knows the subject of negotiation inside-out, is well-prepared and knows the facts, is skilful in expressing his opinion, successfully recognises the opinion of the interlocutor and thereby successfully concludes the negotiation.

A successful negotiator does not leave leadership to the other side.

*"Two factors can help to create the right communication:*

- projection - the way you approach others, or more precisely, the trust, credibility and influence that you "pass" on to others,*
- understanding – the ability to understand the opinion of the interlocutor so that he/she can also see that you are trying to understand them."*

(Petar S. (2001) *Pregovarajte s crnim vragom i zadržite bijela krila: Osnove uspješnog pregovaranja*. Rijeka, Andromeda.)

### **8.5.2. Important / Exceptions**

One should not underestimate the complexity of negotiating. It is a very broad topic that is not fully covered in this Unit.

There are many tactical methods: psychological attack, the impute of possibly misleading information, high demands, misrepresentation of the main goal, fictitious negotiations, changing subjects, exerting pressure and many others.

There are certain critical moments that occur in the negotiation process: threats and blackmail, lack of interlocutors' interest, deadlocks, limited time, etc.

Negotiation is the trading of concessions.

Good negotiators regularly take specialized courses.

### **8.5.3. Tips from professionals**

Set clear goals.

When negotiating, promise only what you can do.

Fully commit yourself to the interlocutor.

While communicating, look the interlocutor in the eye.

Speech needs to be clear, short and understandable.

Listen to the interlocutor patiently.

Avoid interrupting the interlocutor while he speaks.

Observe the body language.

Concentrate.

Be flexible, ready to adjust, and keep in mind your lowest goal.

Analyse the situation from the perspective of the interlocutor.

Pay attention to areas of common interest.

Control your emotions.

Do not underestimate the interlocutor.

Avoid conflicts.

Carefully state the disagreement.

Compromise progressively.

Be open, but not without defence.

Stand up for your goals.

Be professional.

Your face and your voice are your main tools.

Negotiation is based on **communication**.

Apply active listening skills in the negotiation process (see Units 8.1. and 8.2.).

## 8.6. BASIC NEGOTIATION STRATEGIES

This Unit is designed to introduce the negotiation strategies, their positive and negative sides to the learners.

After acquiring knowledge from this Unit, you will know what to teach future FDI advisors to make them qualified to:

- implement essential negotiation strategies.

### 8.6.1. Overview / Theoretical framework

The choice of negotiation strategy depends on the motive, subject and goal to be achieved, and the negotiation strategy depends on the mode of action.

#### Types of negotiation strategies

There are two types of negotiation strategies: spontaneous and organised.

**Spontaneous** negotiation consists of a series of common, everyday images which are applied when there are no technological sequences, tactics and methods; it looks “sloppy” and is unsuccessful most of the time. Although an everyday activity, negotiation is far from being simple.

**Organised negotiation** calls for planning, preparation, reflection during a discussion, control, correction, and constant focus on the goal.

Tudor G. (1992) points out the additional negotiating power (everything that the negotiator does in order to strengthen his position), and states seven main sources of additional negotiating power:

- having knowledge about the real negotiating situation;
- not to become entirely dependent on a single partner;
- not to show the importance of an agreement;
- not to show dependency on the partner;
- lowering the acceptable compromise point to the lowest value (when the point we consider to be the lower threshold is deliberately lowered, a greater internal reserve is gained, which increases negotiating power);
- determining an additional alternative solution;
- increasing the time reserve.

To achieve a successful negotiation that ensures a quality agreement, a rational use of time, energy and resources, as well as a contribution to good interpersonal relationships, the negotiator will apply the best negotiating strategy: the principled negotiation.

**Principled** negotiation results in a quality agreement that meets the needs of both negotiating parties; it consumes time rationally and is characterised by good interpersonal relationships. Negotiator successfully accepts unplanned mutual solutions and enables long-term business relationship.

**Hard** negotiation benefits only one side. The hard negotiator must be somewhat toned down. The positive side of the hard negotiation is that the lowest set goal is protected. This negotiation usually leads to for terminating the relationship.

**Soft** negotiation retains good interpersonal as well as long-term business relationships, but most of the time delivers an agreement of the value that does not fully meet the demands of either party. The positive side of the soft negotiation works well in the known and stable situation which is part of an old business relationship or when the compromise is less important than the lasting relationship.

**Positional** negotiation brings a one-sided solution and one-sided benefit, while limiting creativity. In the positional style of negotiation some important negotiating steps are skipped, demands are prematurely claimed, and a position is retained. Then the arguing starts, followed by disputes, potential back down and a bad compromise. The positional negotiator defends not only his/her interest but his/her demands as well. The positive side is that it provides the opportunity for an extremely tactical action.

**Fictitious** negotiation results in an agreement that is not meant to be achieved or implemented at all. The real goal of the negotiation is hidden. On the outside it does not differ from any other negotiations. The signals are: delaying the start of the meeting, unproductive action, absence of concrete compromise solutions, no suggestion is good enough, it is never the right moment, dissociation from the powers, unclear and imprecise conditions in the proposal of the written agreement.

Regardless of what strategy the negotiator chooses, it is essential to check the competence of the negotiating team at the very beginning of the negotiations; the negotiation time and the agenda should be limited; the agreement should be written in short and clear sentences and the implementation of obligations should be ensured.

### **8.6.2. Important / Exceptions**

Regardless of the choice of negotiation strategies, the following must be checked: the competences of the negotiation team, the time limitations of negotiating and the agenda.

### **8.6.3. Tips from professionals**

#### How to avoid hard negotiation?

- repress excessive self-confidence of the interlocutor on time!
- shock the interlocutor by announcing an extreme request, not letting him to do it first!
- keep self-control and control of the interlocutor!
- promptly alert the interlocutor that the hard competition is not an option!

#### How to avoid soft negotiation?

- defend one's own interests from the very beginning of negotiations!
- not to accept the offer, but demand more!
- not to offer compromise at the first deadlock!
- not to discover the lowest goal, but demand more than needed!
- maintain a professional and not a friendly relationship!

#### How to avoid positional negotiation?

- make clear immediately that only one solution would not be enough!
- prohibit a quick final solution making until mutual safety is checked, as well as some other, possibly better options!
- determine the time limit with the sentence: "The first demand must not be presented for another half an hour. Until then, about the situation, the interests... "!
- ignore a premature request!

#### How to avoid fictitious positional negotiation?

- occasionally make sure whether the interlocutor wants to make a deal and intends to implement it!
- check the information!
- insist on the accuracy of the work and negotiations!
- offer further talks on the principles of principled negotiation!

## 8.7. ADDITIONAL READING

More about the elements and types of empathy:

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More about the different characteristics of the four basic personality types and their combinations.

Littauer F./Littauer M.(1992.), *Personality Puzzle: Understanding the People You Work with*, Ada, Fleming H. Revell Company

More about negotiation:

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Petrić P..Zajednički odvjetnički ured PETRIĆ &KAJIĆ. *Pregovaranje* (online). Available on: <https://www.linkedin.com/pulse/strategije-pregovaranja-petar-petri%C4%87> (2/22/2018.)

Essential understanding of the negotiation process for beginners:

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More about negotiation skills:

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Basics of negotiation:

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More about negotiation skills, principals, unpredictable situations and different examples:  
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## 8.8. QUIZ AND EXERCISES

### Quiz

1. Relating to counselling, ADVISING (giving advice) is a process in which there is:
  - a) listening and talking in equal proportion
  - b) more listening and less talking
  - c) less listening and more talking
  - d) listening and answering questions
  
2. Relating to giving advice (advising), COUNSELLING is a process in which the Advisor:
  - a) listens, asks question, remains silent
  - b) doesn't give answers
  - c) listens and responds immediately
  - d) asks questions and gives answers
  
3. Relating to counselling in ADVISING, the Advisor:
  - a) forces the client to make a decision with special techniques
  - b) doesn't response
  - c) gives responses promptly, interprets, gives instructions and information
  - d) doesn't ask questions
  
4. Which of the following answers is not correct?  
A skilful advisor needs to have these additional qualities:
  - a) organizational skills in gathering and sharing information
  - b) responsibility for accuracy of gathered and shared information
  - c) good connections with experts and institutions outside his own area of expertise
  - d) organizational skills in administration
  
5. Basic counselling skills are not:
  - a) empathy, understanding, focusing on the client
  - b) tolerance, an ability to cooperate and accept
  - c) compassion, assessing and criticizing the client
  - d) being understanding and accepting responsibility
  
6. What is the most important activity, consistently applied throughout the entire counselling process?
  - a) writing
  - b) listening
  - c) answering questions
  - d) smiling
  
7. Listening means paying full attention to the client, being mindful and fully focused not only on the client's words, but also on the message conveyed through them. Listening also includes:
  - a) focus on writing
  - b) paying attention to body language and facial expression
  - c) paying attention on client's gaze
  - d) constant smiling

8. Which of the following answer is not correct?

The most important thing in listening is to learn to:

- a) remain silent
- b) observe
- c) ask questions in order to get all necessary information
- d) focus on writing

9. What kind of vocabulary advisor should use when asking questions?

- a) client's vocabulary
- b) gentle vocabulary
- c) professional vocabulary
- d) vocabulary of trainers

10. What is the purpose of asking questions?

- a) to speed up the counselling process
- b) to show interest
- c) to gather more information
- d) to show respect

11. How does the client perceive premature questions and answers?

- a) impressed with advisor's skill
- b) satisfied with quick advising
- c) stops talking and writes down the answers
- d) becomes insecure and doubts the advisor's expertise

12. What is empathy?

- a) ability to influence the emotional state of another person
- b) ability to understand and share the feelings of another person
- c) expression of sympathy
- d) ability to show one's own suffering

13. What does the advisor show with empathy?

- a) expertise in consulting
- b) concern and understanding for the client's situation
- c) decency
- d) sympathy

14. What should an advisor do when a client knows exactly what he/she wants, but he/she doesn't know how to achieve it?

- a) check if the client really knows what he/she wants
- b) give him/her simple and precise information and directions
- c) investigate the client's motive
- d) insist on other possibilities

15. What is the first thing to do when a client investigates different possibilities for investment without having concrete ideas?

- a) investigate the client's motive
- b) immediately suggest several possibilities
- c) investigate the client's financial opportunities

d) investigate the client's family situation

16. Why is very important when preparing a meeting place?

- a) that the advisor can show his/her status
- b) to have enough space for moving during the consultation
- c) that the client feels important
- d) to remove everything that could cause distractions

17. Who should control time during counselling in order for the latter to be productive?

- a) counsellor's advisor
- b) the client
- c) the client and the advisor
- d) the advisor

18. When advising, communication should be:

- a) include long pauses
- b) humorous
- c) directed towards advisor's expertise
- d) directed towards client's wishes and needs

19. What does an advisor need to mirror?

- a) what he/she assumes that the client feels
- b) what he/she wants the client to think about him/her
- c) what he/she believes that the client wants to see
- d) the message he/she wants to convey to the client

20. Which answer is not correct?

From the client's body language an advisor can recognize a client's:

- a) emotional state
- b) health condition
- c) character and personality
- d) personal attitude and expectation

21. What is the basic rule in giving advice?

- a) the advisor decides if this is the client's wish
- b) the advisor asks questions, the client gives the answers
- c) the client provides solutions, the advisor decides
- d) the advisor provides information and solutions, the client decides

22. What is important for high self-confidence?

- a) high self-discipline
- b) proof of a long-standing professional experience
- c) a big ego
- d) expensive clothes

23. Personality is a:

- a) system of values of an individual
- b) human trait of communication
- c) combination of characteristics that make an individual different from others

d) characteristic of adults

24. What trait is not an integral part of personality?

- a) temper
- b) intuition
- c) behaviour patterns
- d) physical appearance

25. Which of the following is one of the four basic personality types?

- a) psychotic
- b) melancholic
- c) lethargic
- d) sanguine

26. The ability to recognize the personality type doesn't help the advisor to:

- a) better understand the client
- b) determine the financial situation of the client
- c) make better choices of adjustment
- d) make easier choices regarding communication style

27. Which of the following is not a characteristic of popular sanguine:

- a) cheerful
- b) stable
- c) witty
- d) exited

28. Which of the following is not a characteristic of powerful choleric:

- a) impartial
- b) impatient
- c) dominant
- d) effective

29. Which of the following is not a characteristic of perfect melancholy:

- a) unpredictable
- b) stable
- c) self-critical
- d) perfectionist

30. Which of the following is not a characteristic of peaceful phlegmatic:

- a) kind
- b) calm
- c) decisive
- d) relax

31. Which personality is described best with the word "colourful"?

- a) melancholic
- b) choleric
- c) sanguine
- d) phlegmatic

32. Which personality is described best with the word "challenge"?

- a) melancholic
- b) choleric
- c) sanguine
- d) phlegmatic

33. Which of the following two personalities have the following common characteristics: introverted, pessimistic, soft-spoken; analysing:

- a) melancholic and phlegmatic
- b) choleric and melancholic
- c) phlegmatic and sanguine
- d) choleric and phlegmatic

34. Which of the following two personalities have the following common characteristics: outgoing, optimistic, outspoken?

- a) melancholic and phlegmatic
- b) choleric and melancholic
- c) phlegmatic and sanguine
- d) choleric and sanguine

35. Which of the following expressions cannot be linked with the term of negotiation?

- a) Win/Lose
- b) Win/Win
- c) Get/Lose
- d) Give/Get

36. What is the fundamental principle of good negotiations?

- a) Win/Lose
- b) Win/Win
- c) Get/Lose
- d) Give/Get

37. Which word is not describing a dominant negotiator?

- a) tough personality
- b) traditional values
- c) rough
- d) always want to have control

38. Which type of negotiators are keen on introducing radical changes into existing negotiating rules?

- a) dominant
- b) extroverted
- c) philosopher
- d) disingenuous

39. Describe a good physical space for negotiation.

- a) the room should not be transitory
- b) the room should be very big
- c) the room should be small and intimate

d) the room should be linked with the kitchen

40. Why is voice control important?

- a) it helps with concentration
- b) it is easier to write notes
- c) communication proceeds faster
- d) it reveals real emotions

41. Which of the following answers is not correct?

Speech control is important and:

- a) speech needs to be understandable and appealing
- b) speech needs to be comprehensive and detailed
- c) keywords need to be emphasized
- d) the vocabulary should be adjusted to the interlocutor

42. Why are notes important?

- a) this calms down a dominant negotiator
- b) this slows down communication
- c) this confirms the safety of the agreed facts
- d) this emphasizes the advisor's authority

43. Which of the following answers is not a negotiation strategy?

- a) alternative
- b) principled
- c) fictitious
- d) positional

44. How to avoid soft negotiation?

- a) immediately offer concessions
- b) reveal the lowest goal
- c) insist on making an agreement
- d) do not accept the offer, but rather demand more

45. How to avoid positional negotiation?

- a) extend the time of negotiation process
- b) ignore premature request
- c) insist only on one solution
- d) insist on work precision

### Exercises:

#### Exercise 1:

Ask your co-worker / friend to tell you a short story (10 sentences) about some person's life or an event.

Don't interrupt the speaker. Just listen.

After his speech, write down everything you remember/notice (including details).

Ask your co-worker / friend to compare your notes with his or her story.

What did you catch and what did you miss?

Regardless the story, what extra did you remember or notice?

Did you remember important information from all 10 sentences or less? How many?

How many signals of body language did you notice in every person?

Write a report:

Exercise 2:

Prepare a short speech (10 sentences). Subject: real estate, description of the house, surroundings and location. Read the text several times and try to memorize it.

Ask three people to sit and to take different positions.

They should keep silent until you finish your speech.

Give a speech and follow the body language of your audience.

At the end of the speech, describe what you concluded from their body language and then listen to their comments.

Write a report (your conclusion and their comments):

How much were you distracted with the behaviour of your listeners? Did you give the whole speech, or did you miss something? Did you estimate the body language of the listeners in a good way?

Estimate percentage: did you give the whole speech?

Estimate percentage: How many signals of body language did you notice and did you evaluate this behaviors properly?

### Exercise 3:

Choose four people (co-workers/friends/family members).

Define each person with 3-5 characteristics which describe this person the best. (Write them down).

Let them describe themselves with 3-5 characteristics too. (Write them down).

Based on what is written, add to each person his personality or personality blend.

Ask them to complete a personality test available here: [Personality plus test](#)

Compare the on-line test results with your estimation of the participants' personality or personality blend.

Write a report in which include: your and participants' definition of their 3-5 characteristics, your estimation of participants' personality or personality blend and the on-line test result.

#### Exercise 4:

Ask your co-worker/friend to negotiate with you about buying/selling a vehicle.

In first role play you will be the seller, in the second one you will be the buyer.

Ask your co-worker/friend to estimate your way of negotiating.

Write a report about the time and type of negotiation, and comments of your co-worker / friend: in which part of negotiation you were good and in which part you were bad.

Write down: what type of negotiation did you apply as a buyer.

Write down: which type of negotiation did you apply as a seller.

#### Exercise 5

You are arranging long-term business co-operation with a new customer. Prepare yourself for negotiation, which will take place in your office.

Write a report: Which steps will you make?

## Exercise 6

Ask your co-worker to act as a client and negotiate with him or her about the price of your accounting services. She or he will have high expectations, big requests, asking for benefits etc. (hard negotiator).

Write a report about the negation process, define which strategy you used and what you accomplished:

## Module 9: BASICS OF BLENDED LEARNING

The module is intended for mentors who are not familiar with blended learning. You will get to know the technological and pedagogical aspects of distance learning and practical aspects of the implementation of blended learning.

After the successful completion of this module, the participants will be familiar with different types of companies, their characteristics, the procedures for setting up a particular type of business, and the related costs. They will acquire all the necessary know-how to conduct the necessary procedures in less demanding business forms themselves.

### Glossary

**E-learning** is an education that is conducted through electronic media (most often the Internet and the World Wide Web) and can be carried out within the frame of conventional education, in blended learning or distance education.

**Distance learning** or **distance education** is a form of education during which a student and a teacher are separated in space, potentially also in time, and which is conducted with the help of information and communication technologies.

**E-materials** are multimedia learning materials that are accessible via the Internet (most often via the World Wide Web or mobile devices).

**Virtual Learning Environment (VLE)** is a learning environment that allows you to carry out learning activities, while enabling access to study materials, informing, signing up for exams, socializing of students. For the distribution of learning content and the implementation of organized e-learning, a platform for e-learning or a Virtual Learning Environment is needed. The prevailing learning technology that enables the organization and implementation of e-learning is the Learning Management System (LMS). LMS enables the organization and execution of courses, including their splitting up into modules and lessons; conducting knowledge tests; discussions ... LMS systems are usually not the only software used, as many services and platforms are available on the World Wide Web that enable education and training or individual activities within the educational process. The Virtual Learning Environment therefore consists of an LMS system, various applications, as well as other services and platforms that are accessible over the Internet as a cloud service.

## 9.1. TECHNOLOGICAL ASPECTS OF DISTANCE LEARNING

In order to implement modern ICT-enabled distance learning, it is necessary to establish an appropriate virtual learning environment, a learning platform comprised of a system of applications, including learning content and data, enabling access to open learning resources.

### 9.1.1. Theoretical framework

Participants enter the virtual learning environment through a web-based educational portal, requiring only a computer with Internet access and a web browser. They do not need to install additional software on their home computers.

LMS (Learning Management System) enables:

- designing and implementing modules in the framework of Distance Learning or Blended Education (e-modules);
- setting up e-classrooms for individual modules;
- development and publication of online learning content of individual e-modules;
- personalized access to learning resources and data;
- monitoring of the implementation of e-subjects;
- monitoring students' learning achievements;
- learning;
- knowledge examination;
- communication and cooperation through forums;
- e-library with recommended additional sources of information;
- administration, management and control;
- informing students;
- evaluation of education.

### 9.1.2. Important / Exceptions

Within the framework of the "FDI advisors" project we use the "Moodle" learning platform, available at the following web address: <https://fdi.replika.si/>.

### 9.1.3. Tips from professionals

The FDI Advisors e-portal allows you to assign rights to individuals and groups of users and perform various roles (teacher, author, mentor, tutor, administrator, student). It is accessed with

a password, which enables the assertion of allocated rights and access to those resources that individual users need. Individualization of the learning environment enables individuals to protect their own personal information, while the provider can protect the data used and the copyrights.

During the implementation of the blended learning process, you will need to focus on the activities underlined above, as the rest have already been completed or are implemented by participants or the portal administrator.

## **9.2. PEDAGOGICAL ASPECTS OF DISTANCE LEARNING**

Establishing a virtual learning environment is undoubtedly a necessary condition for the implementation of distance learning. Einstein once said: "I never teach my students. I am only trying to establish a learning environment that provides the conditions in which they can learn." However, in modern didactics, we are no longer satisfied with the learning environment alone. It is also necessary to establish a pedagogical model of the implementation of education or training.

Rapid development of ICT and research in the field of learning also brings about changes in education and training. We are talking about learner-centered design or learner-centered education. Teaching methods are changing. Students are provided with modern learning resources that enable new and more effective learning methods.

In the following, we will present theories of learning that form the basis of modern distance learning, as well as the basic concepts of online learning materials intended for participants in training for advisors to foreign direct investors.

### **9.2.1. Theoretical framework**

Depending on the technology used and the place where it is carried out, the training or education is divided into:

- Conventional face-to-face learning;
- Blended learning;
- E-learning.

In this way, we can carry out the entire training program or individual modules or chapters.

Conventional learning is predominantly face-to-face learning. Use of ICT and additional e-learning opportunities, i.e. online learning, which can be made available to learners for self-learning, are improvements and acquisitions that are also enabled in conventional education by technology and the development of didactic methods.

In the following, we will therefore describe blended education as it presents the model on the basis of which we designed the implementation of training for advisors to foreign direct investors.

#### **9.2.1.1. Blended learning**

Blended learning or hybrid learning is usually defined as a form of learning where we combine conventional learning and distance learning, i.e. e-learning. The concept of blended learning enables participants and mentors to take advantage of the best of both methods - conventional and electronically supported - while allowing the development of new learning strategies.

Blended learning is often referred to as a combination of conventional lessons in school and e-learning from home, from work, libraries, etc. However, this term is also used more widely to indicate the most diverse combinations in the process of teaching and learning (Singh, 2003):

- from conventional classroom-based learning to independent e-learning,

- from synchronous learning to asynchronous learning,
- from independent learning to collaborative learning,
- from structured learning to free learning (i.e., from linear to non-linear learning),
- from learning the theory to its implementation in practice.

Horton (2000) gives the following division of courses or subjects carried out by using ICT:

- from instructed-led, facilitated to self-paced, self-directed,
- from synchronous (mentor and participant are simultaneously involved in the process) to asynchronous (mentor and participant are involved in the process with a time delay).

However, these classifications do not mean that it is possible to choose only two extreme options. There is an entire range of options in between. A combined e-course can change the form from guided education to self-learning, and these alternatives can also be exchanged.

E-learning is usually carried out asynchronously, because technology enables a quality learning process, wherein it is not necessary that the mentor and the participant are always coordinated in time. Nevertheless, certain activities are performed synchronously – e.g. real-time discussions, teleconferencing, video conferencing. Certain forms of counselling, consultation, knowledge testing and collaborative learning are implemented in this way.

### **9.2.1.2. Guided e-training**

Guided training means that the mentor directs the learning process.

In e-training, basic learning materials are available for each module, i.e. e-materials through which the participant acquires the basic knowledge of the subject. Learning Process Management or the learning course management requires the mentor to perform the following tasks before or during the implementation of the module (Horton, 2000; Horton, 2011):

1. Planning
  - creating a curriculum and setting up learning objectives,
  - elaboration of a work timetable defining the requirements and activities and deadlines for their completion,
  - defining the rules of conduct,
  - publication of learning objectives and expectations (required knowledge, acquired competencies).
2. Implementation
  - monitoring the work of participants and observing their progress,
  - helping participants progress in the right direction,
  - promoting communication and cooperation between participants,
  - active participation, promotion and management of interactive discussions,
  - answering questions and directing learning,
  - examining and evaluating participants' products, providing content feedback and recommendations related to learning activities or received products,

- evaluating the work of the participants.

The purpose of the facilitation of the scaffolding is to help participants allocate learning appropriately and increase the effectiveness of learning. Research shows that the students' learning outcomes depend on their self-regulatory processes, such as goal setting, self-examination, self-evaluation, use of strategies, planning and time management, search for help and social negotiations (Zimmerman and Schunk, 2001). Dabbagh and Kitsantas (2005) have proven that with various tools of the learning platform (LMS system) we can support these processes. In any case, the technology only provides a suitable environment. Support for learners is more efficient if the course implementation is appropriately conducted or directed by the mentor.

In the framework of conducting training of advisors to foreign direct investors, e-learning of subjects will be managed. We will use a combination of conventional learning in the form of lectures or workshops aimed at:

- getting to know the basic concepts of the modules,
- learning about e-learning materials,
- becoming familiar with examples from practice,
- motivating the participants,
- discussion of the key content of the modules;

and independent long-distance e-learning.

### **9.2.1.3. Blended learning course for FDI advisors**

The module usually starts with a meeting in the classroom where participants get to know the mentor and the basic concepts of the modules. Work is then continued through the learning platform. If needed further classroom meetings can be organized (depending on the requirements of each module), however the assessment of knowledge is carried out via the e-platform.

Horton (2000) proposes that the schedule of learning activities be made on a weekly basis. We plan the activities for the entire implementation of the training. Synchronous activities, i.e. meetings in real time (in a lecture room, in the form of teleconferencing or videoconferencing, in a chat room), are defined for each week, as well as the learning materials to be studied and the activities to be performed (tests, tasks) by the participant. All of the proposed activities have defined implementation deadlines. This serves primarily to motivate and support participants in order to achieve better learning outcomes and reduce the risk of participant drop-out.

Promoting communication and collaborative learning is also a very important component of the guided implementation of the subject. The foundations of this lie in the constructivist learning theories presented in the continuation.

## **Constructivist theories of learning**

The design and implementation of e-learning should be based on the theoretical starting points of learning theories rather than on existing practice (Dalsgaard, 2002). Many researchers recommend the observation of constructivist and socio-constructivist learning theories (Squires & Preeces, 1999; Ardito et al., 2005).

Constructivist learning theories and methods of teaching are based on assumptions about the manner of human learning. They are based on the premise that an individual does not accept knowledge from the outside, but constructs it by him-/herself, through his/her own activity and through the process of giving meaning to his/her own experience (Marentič Požarnik, 2000).

Psychologists Jean Piaget (1896-1980) and Lev Vygotsky (1896-1934) laid the foundations of the theory of constructivism in the field of learning and teaching. The difference between their approaches is mainly that Piaget's work was to a greater extent based on the processes by which an individual constructs knowledge of the world on the basis of his/her own experience. Vygotsky is the founder of the so-called social constructivism, since he emphasizes the role and significance of social interaction, i.e., dialogue in the building of knowledge and understanding (Marentič Požarnik, 2000).

With the development of ICT, constructivism has become an important framework of educational theory and the discourse of pedagogical practice.

Development psychologist Jean Piaget is one of the most important cognitive development theorists. Piaget argues that an individual constructs new knowledge from his/her own experience through the interconnected processes of organization, accommodation and assimilation (Piaget, 1971). Learning is therefore an active construction of knowledge. Individuals build new knowledge on previously acquired knowledge and experience. Thus, we can conclude that in order to enable successful distance learning, it is important to take into account the knowledge of the individual, to stimulate active learning, and to constantly verify and consolidate knowledge.

Vygotsky and Piaget both emphasize the student's active role in the learning process. While Piaget emphasized self-learning, Vygotsky stated that learning is carried out through social interaction. According to Vygotsky, students develop cognitive abilities by being part of the social environment in which they operate. The students' cognitive development is influenced by teachers and competent peers. With the help of a teacher and peers, a student achieves more than he/she would if he/she solved the problems independently (Vygotsky, 1978). Based on these premises, various learning methods have been developed. In e-learning and long-distance education, collaborative learning is particularly highlighted. An important factor in the student's development is, of course, the teacher whose task is to implement scaffolding. The term scaffolding serves as a metaphor, denoting various assistance to the student aimed to support learning.

Regarding e-learning, especially in connection with the development and implementation of e-materials and e-subjects, we are talking about learner-centered learning and the use of methods through which the learner is directed and lead toward knowledge and competence.

According to these findings, the importance of social software, as well as the importance of cooperation and communication between the mentor and participants in the learning process, is emphasized in the modern ICT-enabled distance learning. Collaborative distance learning in the technological sense is carried out using tools to implement forums, chat rooms, teleconferences, video conferencing, messaging systems, etc. In addition, communication is enabled by wikis, blogs and social software.

## **E-learning materials for distance learning**

E-materials represent a fundamental source of knowledge in e-learning.

We can use different learning materials in distance education. Participants can have access to conventional digitized material, e.g. in PDF format, in virtual learning environments on the website of the school. However, such types of materials have already become obsolete from the point of view of technology and pedagogy. With "two-dimensional" materials, it is not possible to significantly change the methods of teaching and learning, and distance education with old methods of work does not give adequate results. Modern e-materials should not be merely a transposition of traditional materials into an electronic format but should be adapted to the media through which it is being accessed.

Modern technology and average ICT equipment available today enable participants to use multimedia and interactivity. These are technical factors that can influence the increase in comprehensibility and visibility, as well as active learning.

### **9.2.2. Important / Exceptions**

In the training of advisors to foreign direct investors, we will use all sources of knowledge, including conventional and digitized conventional materials, also adding modern e-materials on the Moodle platform.

E-material is:

- Clear content, written with simple and understandable phrases where the author uses scaffolding.
- Enriched with multimedia add-ons that enhance intelligibility and visibility and enable the adapting to different learning styles.
- Enriched with interactive elements that promote active learning, such as interactive questions, tests, links to other sources, etc.

We have already mentioned that learning is more effective with acquired and refreshed knowledge, and that the participant needs feedback. Therefore, interactive questions for regular knowledge testing are integrated into e-materials, and each e-learning material is completed with a test for knowledge testing.

### **9.2.3. Tips from professionals**

Within the framework of the FDI advisors' platform, a computer-based collaborative learning environment (forums, communication channels, etc.) has been established. The task of the mentor is, inter alia, the implementation of counselling and the promotion of communication between students as well as collaborative learning.

Encourage discussion in forums!

Regularly monitor the progress of the participants and motivate those who have declined in their learning process!

## **9.3. IMPLEMENTATION OF BLENDED LEARNING**

### **9.3.1. Theoretical framework**

A smaller part of the program is carried out face to face (in lecture rooms), while the major part is in the form of e-learning.

#### **Face-to-face meetings in the lecture room**

For most modules, we organize only one face-to-face meeting in the classroom, preferably at the beginning. However, for individual modules, several face-to-face meetings can be set; if it makes sense, several modules can be combined into one meeting.

#### **Pedagogical activities**

Since a participant studies the basic learning material alone, and builds knowledge on a higher level with the help of a mentor, the mentor's work is more creative than in the conventional form.

A mentor plays the most important role in conventional meetings, where he/she must act primarily as a motivator. Other pedagogical work is carried out mainly long-distance, with the help of e-portal and communication tools. Distance learning is often asynchronous.

#### **Tasks of the participants**

The participants' workload includes:

- organized work, such as lectures, seminars, exercises and other forms of organized study;
- individual study work, such as the study of e-materials, other literature, research work, preparation and performance of tests.

#### **Scheduling the modules**

Depending on the scope of modules, plan for work to be carried out is set and defines:

- duration of implementation of a particular module in number of days (recommended time from 3 to 14 days, depending on the scope of the module);
- e-materials, i.e. basic study literature, which needs to be studied in a given period;
- all other activities of participants (e.g. processing of e-materials, self-evaluation with knowledge tests, final test) and deadlines for their completion.

## **Modules execution**

The execution of the module is carried out in accordance with the foreseen timetable.

The time for the implementation of a module shall be regarded to mean the time determined for organized pedagogical and student work. As a rule, it starts with an introductory lecture, continued with the independent work of participants through the web application, and ending with a test through the application.

Participants only have two tries to pass the test.

Between the beginning (introductory lecture) and the conclusion (test), the following are appropriately distributed:

- guided and independent learning from e-materials and other learning resources,
- collaborative learning through a forum or other tools,
- synchronous and asynchronous consultations.

Module execution consists of the following components:

### **1. Introductory meeting**

The introductory meeting in the classroom is intended for the meeting of the mentor and participants, learning about the subject matter, study literature and the work method. The mentor presents an overview of the subject matter and the work schedule, defines the requirements and activities as well as deadlines for completing including activities. It also publishes learning objectives and expectations and defines rules of behaviour and acting in the course.

### **2. Activities of the participants**

Participants study the learning materials and participate in various forms of collaborative learning and communication.

### **3. Activities of the mentor**

The mentor regularly monitors participants' activities, encourages cooperation and communication. In particular, asynchronous communication is foreseen, and if necessary, long-distance synchronous communication is organized at least once a week. The mentor monitors students' work, directs and observes their progress, actively participates, promotes and leads interactive discussions, answers questions, directs the learning, checks students' work, and provides feedback and recommendations related to learning activities or received products. At the end, the mentor evaluates and grades students' work (test).

## **Communication and cooperation**

An important factor in training is communication between mentors and students, as well as communication between students. It is technologically supported through communication and collaboration tools that are integrated into the virtual learning environment of the school.

- For asynchronous communication, we use e-mails or messaging system and forums.

- For synchronous communication, we use a forum (if it is an agreed, fixed term - e.g., office hours); telephoning over the Internet, and a teleconferencing or videoconferencing system, such as Skype.

With the help of forums, teleconferencing or videoconference systems, a collaborative learning environment is established.

## **E-classroom**

Modules are carried out in special virtual spaces called the e-classrooms, where everything that is necessary for learning is available to a student:

- learning content,
- communication and cooperation tools,
- exercises and tests;
- various reports on the activities carried out, etc.

The communication and collaboration tools are directly accessible through the e-classroom.

### **9.3.2. Important / Exceptions**

At the first conventional meeting, participants are first trained in e-learning. Training involves learning about virtual learning environment, i.e. the educational portal and its functions, the importance and purpose of the communication and cooperation tools, the manner of implementing modules, the way of learning from online learning resources, etc.

### **9.3.3. Tips from professionals**

With the help of forums, teleconferencing or videoconference systems, a collaborative learning environment shall be enabled. Use them as often as possible, as in most cases they represent one of the strongest motivating factors for stimulating the participants.

## 9.4. ADDITIONAL INFORMATION

Additional information about Moodle are available at: <https://moodle.com/> (20<sup>th</sup> October 2018)

Additional information on blended learning:

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## 9.5. QUIZ AND EXERCISES

1. Do participants in blended learning need a special application on their smartphones?
  - a) No, they can learn via a computer without additional software.
  - b) No, but learning is also possible through the application on the phone.
  - c) Yes, the only access to Moodle e-classrooms is via smartphones.
  - d) Yes, learning through smartphones is more effective.
  
2. Which of the following is usually not enabled by e-learning platforms?
  - a) Monitoring students' learning achievements
  - b) Learning
  - c) Oral examination of knowledge
  - d) Knowledge testing
  
3. Depending on the technology used and the place where we conduct education or training, the education or training is divided into:
  - a) Conventional learning in the classroom, blended learning, learning in an e-lecture room;
  - b) Conventional face-to-face learning, learning in libraries, e-learning;
  - c) Conventional face-to-face learning, blended learning, e-learning;
  - d) Classroom learning in the classroom, blended learning, e-learning, group learning.
  
4. Asynchronous learning means that the mentor and the participant are involved in the process with a time delay.
  - a) No
  - b) Yes
  
5. What is not the task of a mentor in guided blended learning?
  - a) monitoring the work of participants and observing their progress
  - b) providing individual instruction
  - c) promoting communication and cooperation between participants
  - d) answering questions and directing learning
  
6. How many conventional lectures are recommended for the training of advisors to foreign direct investors?
  - a) Four
  - b) Three
  - c) Two
  - d) One

7. What is the most important role of a mentor in the process of training advisors to foreign direct investors?
- a) Correct presentation of teaching materials at conventional meetings
  - b) Motivation of participants in conventional meetings
  - c) Quick answers to questions from participants
  - d) Accuracy

Exercises:

Exercise 1

In the course of training of advisors to foreign direct investors, the method of guided e-learning is being recommended. What is the purpose of the introductory conventional lectures?

Write the answer:

Exercise 2

How would you implement Module 1 for potential FDI advisors?

Write the answer:

## Module 10: NATIONAL VOCATIONAL QUALIFICATIONS

Within the module you will get familiar with national vocational qualification system in Slovenia and documentation needed for qualification certification.

### Glossary

A **portfolio** or a **collection folder** is an assembly of student's achievements realized through (formal, informal, occasional) learning or (working, living) experience.

A **vocational qualification** is a professional or vocational competence necessary for the pursuit of a profession or individual assignments within a profession at a certain level of complexity.

A **National Vocational Qualification** is formally recognised based on National Vocational Standards and is either obtained through any proven educational programs or through the National Vocational Qualification Verifying and Certifying Process.

A **Certificate** is a valid document proving the National Vocational Qualification.

An **NVQ Provider** is an organisation performing publicly available educational programs and complying with any material and personnel conditions defined by the Catalogue of Standards of Professional Skills or any other act stipulated by special regulations. These contractors are listed in the State Examination Centre Register.

An **NVQ Advisor** is employed by an NVQ Provider to assist the NVQ Candidates in the preparation of their portfolios.

An **NVQ commission** is a group of experts, assigned by The National Examinations Centre, who verify knowledge, skills and competences of candidates.

## **10.1. NATIONAL VOCATIONAL QUALIFICATION SYSTEM**

In Slovenia, skills and knowledge acquired through non-formal learning can be assessed and certified through the National Vocational Qualification (NVQ) system, if:

- the initiative for a publicly certified NVQ is confirmed by the Centre for Vocational Education;
- under the Centre's supervision and based on Occupational Standard the drawn-up Catalogue of Standards of Professional Knowledge and Skills is confirmed by the relevant authorities (Professional Council of the Republic of Slovenia for Vocational and Professional Education and the Ministry responsible for Labour).

Initiative for NVQ for FDI advisors will be filled in – it is expected that the training participants will have the possibility to receive a formal certificate for the knowledge, skills and competences obtained during the training programme.

The mentors of the FDI advisors are not part of the procedure of the assessment and certification, however you should be familiar with the assessment and certification procedures and documentation that will help your students to obtain the official certificate.

In case organization you are working for, becomes a NVQ certification organization, it is advisable to take the official NVQ counsellor training programme at Andragoški center RS.

### **10.1.3. Theoretical Framework**

After NVQ is confirmed by the relevant authorities, procedure for obtaining the certificate is composed of three steps:

1. Candidate's application at an NVQ provider.
2. Preparation of his/her portfolio (including certificates, proofs, reference letters, deliverables and acknowledgements) with the help of an NVQ advisor.
3. Verification, examination and certification by an independent NVQ commission.

The process is visually depicted in the figures attached.

A candidate shall first select a registered NVQ Provider and submit his/her application. The candidate shall then be assigned an advisor whose task is to assist with the documentation proving his/her ability to pursue a profession (Fig. 1).



Fig. 1: First step towards the NVQ – registration (<http://www.NVO.si/kandidati/>)

The second step is drawing up the documentation (Fig. 2). See Unit 2: Portfolio elements for more details.

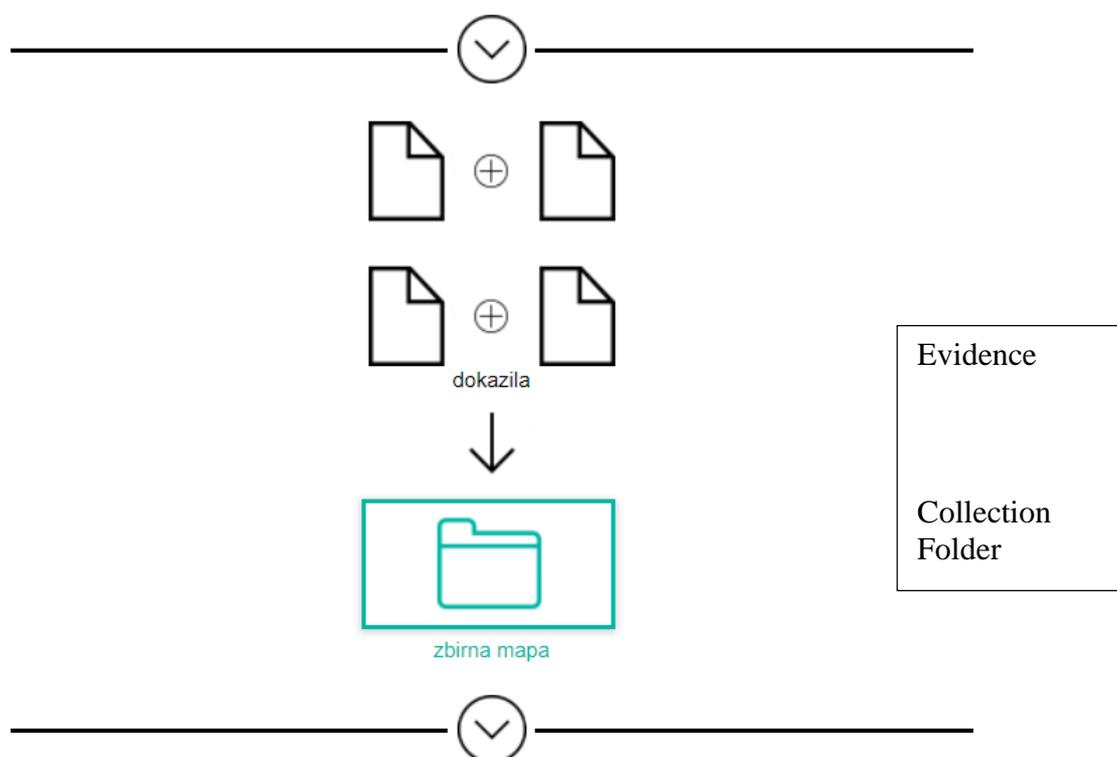


Fig. 2: Second step towards the NVQ – portfolio preparation (<http://www.NVO.si/kandidati/>)

The NVQ Advisor plays an important role throughout this process.

The advisor's task is to make the candidate familiar with the verification and certification procedure. He/she is also offers support to the candidate when choosing appropriate evidence or seeking additional educational opportunities at the time when the candidate is preparing his/her collection folder, including personal portfolio.

The third step is verification, examination and certification.

The NVQ Verification, Examination and Certification Process is performed by an NVQ Commission. The Commission is formed and appointed by the National Examination Centre. Commission members must hold appropriate licences.

The NVQ commission first checks the candidate's Collection folder.

If the gathered evidence in the folder proves that the candidate has all the required knowledge, skills and competences for the NVQ Certificate, his/her knowledge, skills and competences are verified and he/she receives the certificate automatically.

If the candidate's evidence gathered in the Collection folder fails to prove that he/she has all the knowledge, skills and competences required for the NVQ Certificate, he/she is offered additional training. This is followed by the second check of the Collection Folder.

If the candidate still fails to prove his/her knowledge, skills and competences, he/she has the opportunity to prove them by an exam in front of the NVQ Commission.

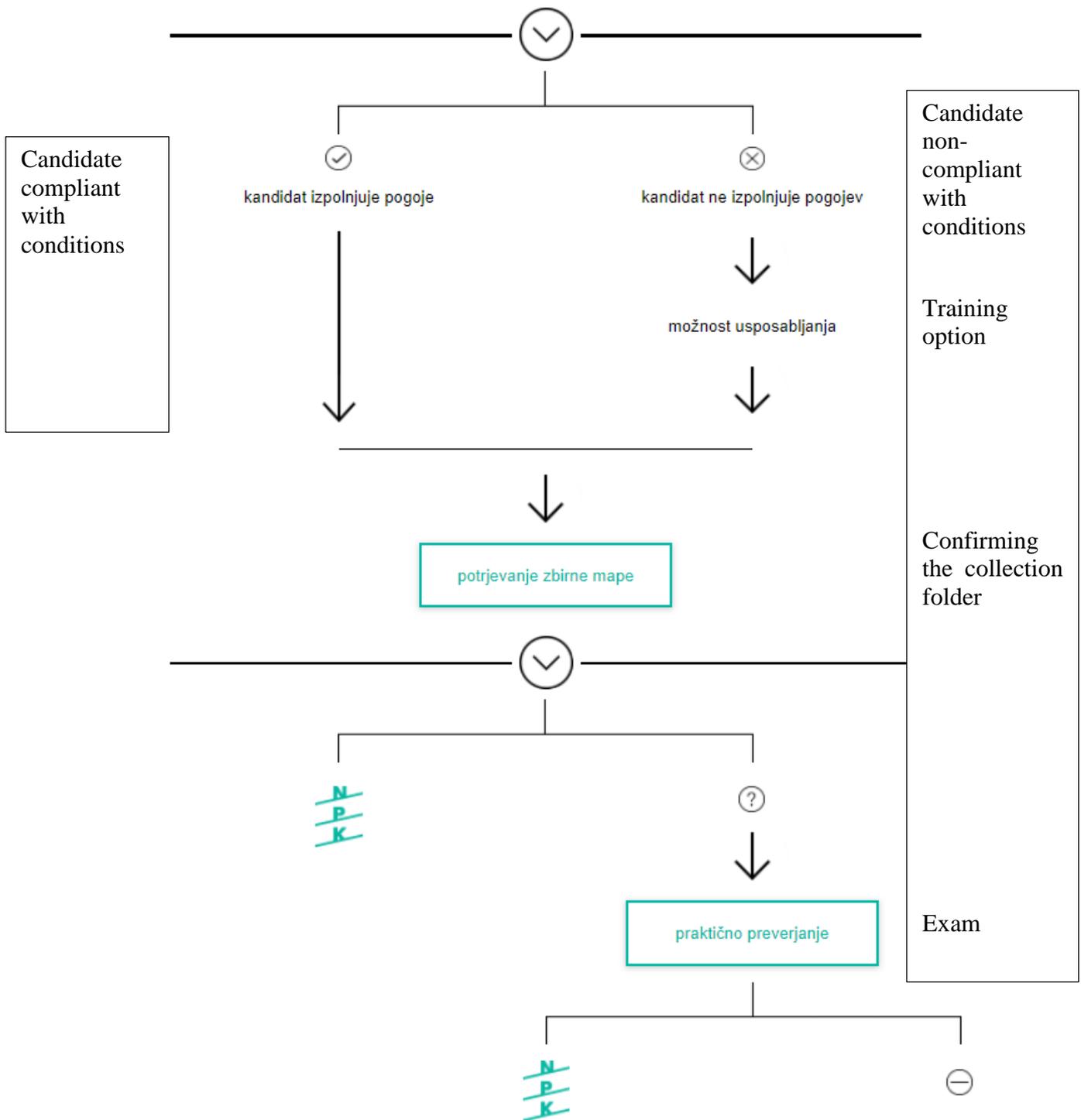


Fig. 3: The third step towards the NVQ – verification (<http://www.NVQ.si/kandidati/>)

### **10.1.2. Important/exceptions**

A candidate doesn't need to accept the offered additional training – he/she can opt to prove knowledge, skills and competence that the NVQ commission found missing directly through the exam.

The NVQ Advisor is not an independent profession. Instead, this function is performed by various profiles, such as school consultants, adult education providers, teachers of various subjects... trained by the Centre for Vocational Education or the National Centre for Adult Education. They are usually employed by an organisation in charge of checking individual National Vocational Qualifications (an NVQ Provider) or by Adult Education Consulting Centres. Training courses for advisors are performed by the Centre for Vocational Education and Training at least twice a year. A training session takes two days, ending with the completion of the final task advocated by the future advisor at an interview.

### **10.1.3. Tips from professionals**

A major role in the NVQ Verification and Certification Process is played by the NVQ Advisor. With an NVQ Advisor able to properly motivate and provide guidance through the process, the candidate has a much better chance of completing the procedure in a short time and with success. With this goal in mind, an NVQ Advisor shall be a positively oriented person radiating his/her positive attitude towards candidates and firmly adhering to the ethical principles such as respect, impartiality, transparency, confidentiality, accuracy and conscientiousness.

Should mentors of FDI advisors become NVQ advisors?

Yes, in case organization in which you are employed becomes a registered NVQ Provider.

If that is not the case, with this module you will obtain the basic information about the system, portfolio and collection folder, in order to be able to suggest the training participants to obtain the formal certificate and to support them in portfolio preparation.

## **10.2. PORTFOLIO ELEMENTS**

### **10.2.1. Theoretical Framework**

The **Personal Portfolio** is a record of individual's achievements related to the candidate's work and training. In this folder, the activities and successes are presented proving the candidate's competencies and qualifications. These achievements may be realized through any (formal, informal, occasional) learning or (working, life) experience.

In addition to the contents-selecting guidelines, a student preparing his/her portfolio shall also be familiar with the criteria for assessing the quality of his/her achievements.

In practice, two types of portfolios are distinguished:

- Those used in pedagogical practice; the first portfolio type is being prepared by a student continuously throughout the entire educational process, possibly for a particular subject and, as such, its structure is not the same in all cases.
- The other portfolio type is intended to prove one's competence to pursue a particular profession (e.g. obtain a National Vocational Qualification Certificate).

This chapter is focusing on the structure and content of a portfolio that shall be developed in the National Vocational Qualification Certification Process (NVQ).

In the NVQ Verification and Certification Process, we distinguish between:

- a personal portfolio and
- a collection folder.

#### **10.2.1.1. Personal portfolio**

A personal portfolio is a collection of an individual's competence achieved by any

- (formal, non-formal, occasional) learning, or
- (working, life) experience.

In the NVQ Verification, Examination and Certification Process, the documents on candidates' achievements in formal and non-formal education, working or other experience and the competencies and qualifications acquired are classified systematically based on the corresponding occupational standard and the Catalogue of Standards of Professional Skills. The structure of the portfolio is the same for all types of NVQs. The difference is in the content provided by each individual Catalogue of Standards of Professional Knowledge and Skills.

In the NVQ Verification, Examination and Certification Process, the portfolio serves as an instrument based on which the NVQ commission can learn more on the candidate, his/her work experience, education and training. This should always be kept in mind by both the candidate and his/her advisor when creating the candidate's portfolio.

The role of a personal portfolio is multi-layered:

- it shall demonstrate the candidate's competence (skills and achievements), regardless of how it has been acquired;
- the candidate becomes aware of the formally acquired knowledge and of his/her skills (competences) acquired in an unplanned, occasional manner, which he/she may often be unaware of;
- it systematically classifies (or introduces order to) the review of the candidate's achievements with the creation of his/her professional curriculum vitae as a result;
- it raises and strengthens the candidate's self-esteem, encourages him/her to continue learning, stimulates his/her motivation for further development in his/her career;
- the candidate is encouraged to become more active in further learning and to plan it independently.

The personal portfolio prepared by the NVQ candidate assisted by his/her NVQ Advisor consists of the following elements:

- compliance with special terms and conditions;
- presentation;
- work experience;
- education and training.

### **Compliance with Special Terms and Conditions**

In this part, the candidate shall enclose in his/her portfolio supporting documents proving the compliance with any special conditions set out in the Catalogue of Standards of Professional Knowledge and Skills.

The Catalogue of Standards of Professional Skills for the profession of FDI Adviser will specify in section 2.2 which specific terms and conditions shall be complied by a candidate wishing to obtain this professional qualification.

Foreseen special conditions are:

- finished higher education (level V. SOK / level IV. EQF)
- knowledge of one foreign language

### **Presentation**

The presentation of the candidate is based on his/her curriculum vitae. The format preferred is the Europass CV. Both the instructions and the form are available on the following website: <http://www.europass.si/>.

Enabling a systematic and transparent personal presentation, this form is recommended not only in the context of the NVQ, but also for other purposes. The Europass CV provides an objective base for comparison to anyone carrying out a selection between different candidates.

### **Work experience**

In the NVQ Validation, Examination and Certification Process, the previous work experience of the candidate are also of great importance. Evidence about it may include the candidate's

work booklet, work contract(s), reference letter(s), job description(s), statement(s) by the employer(s)...

On 01/01/2009, work booklet in paper form was abolished. An older work booklet should be kept in custody by the employer until the termination of the employment contract, unless the employee takes advantage of the right to withdraw it. Upon the employee's explicit request, the employer is obliged to deliver the work booklet against signature on the receipt. When the employment contract is terminated, the employer is obliged to return the work booklet against the signature on the receipt. From that moment on, the booklet shall be kept by the employee him/herself. For more information, check the National Institute for Pension and Disability Insurance of Slovenia website: <https://www.zpiz.si/cms/?id=2&inf=304>.

Work booklets issued until 31 December 2008 have a probative value as a public document. After that date the applicant shall contact the National Institute for Pension and Disability Insurance of Slovenia (local abbreviation: ZPIZ) for a certificate about his/her working period. Upon the request, ZPIZ shall issue the printout of the last insurance period (from the last application for insurance before 1 January 2009 until the end of the insurance period after that date), or the insurance coverage during the period following 01/01/2009. The request can be submitted in person at any regional unit, by mail or by an application via the ZPIZ website.

Instead of a printout issued by ZPIZ, the candidate has an option to submit his/her work contract(s), reference letter(s), work description(s), employer's declaration(s) or a similar document(s) proving his/her work experience.

## **Education and training**

The candidate shall submit the certificates listed in his/her curriculum vitae. They should be related to his/her qualifications, however not the ones required under the special terms and conditions. Those Certificates shall be enclosed in the *Compliance with Special Terms and Conditions* portfolio section.

The following certificates apply:

- Certificates of attendance and/or completion of an education or training programme;
- school certificates;
- diplomas;
- other evidence of the studies completed, etc.;
- certificates issued by education and training providers on successful completion of education or training;
- a certificate;
- a licence;
- a company training certificate, etc.

## **References**

Should a candidate state in his/her curriculum vitae that he/she already has work experience in the professional area in question and is able to obtain reference letters from his/her former employers or clients, he/she is strongly encouraged to do so.

The candidate is also encouraged to document his/her work experience related to the professional qualification he/she is acquiring.

In this respect, the following evidence is considered:

- practical work done at the workplace (product, model, program, etc.);
- a written product prepared by the candidate at his/her workplace (e.g. a completed project, a plan, a development task, a research, a study, a paper, an analysis, an essay, an evaluation report, etc.);
- a service provided at the workplace.

The candidate can also use other means to prove his/her work experience. These may include competition awards, deliverables, authorship or co-authorships of books or other publications.

The candidate shall **unambiguously** prove that the deliverable, product or service, is in fact his/her own work even when it was a result of teamwork (project). The authorship can be proved by written statements by employers or project managers, as well as by awards, patents, photographs, etc.

Sometimes it is difficult to decide what a portfolio should include. Given their extensive schooling and work experience, adults hold large records of their skills and competences.

To make a proper selection, the candidate should consider what knowledge and competences can be proved by a certain document or what a specific document tells about him/her as a person. It is recommended that portfolio includes relevant evidence; i.e., those that directly or indirectly relate to the occupational field in question.

When it comes to achievements from a completely different area, it may sometimes prove useful to quote these as well – but care should be taken. Such evidence should not be oversized. Above all, the selection of a portfolio content depends on the criteria by which the documents will be assessed by the members of the NVQ Commission.

Nevertheless, the personal portfolio is not the only part of the documentation to be collected in the NVQ procedure.

#### **10.2.1.2. Collection folder**

Article 2, paragraph 3, of the Regulation on the National Vocational Qualification Verification and Certification Process (Official Gazette of the Republic of Slovenia, No. 67/15) stipulates, that the Centre for Vocational Education (CPI) shall publish those documents that form an integral part of the verification and certification procedure as listed on the website of the National Information Centre for Professional Qualifications:

- application for certification;
- **personal portfolio;**
- consulting record;
- record on the course of certifying the national vocational qualification based on documents;
- record(s) of the direct verification of the national vocational qualification.

The *Report on Consulting and Application for Certification* forms are available on the website [http://www.nrpslo.org/kandidati/portfolijo\\_kandidata.aspx](http://www.nrpslo.org/kandidati/portfolijo_kandidata.aspx) in the .docx format and are ready to be completed electronically. Still, a printout is necessary for a handwritten signature is required.

The NVQ Provider (i.e. any school or other legal entity) shall keep the following procedural documents:

- registration in the National Vocational Qualification Verifying and Certifying Process;
- record of the course of consulting;
- record of the course of the National Vocational Qualification Certification based on the documents submitted;
- record of the course of the vocational qualification verifying and certifying.

If any attachments are delivered with these documents, the NVQ Provider shall keep them as well.

The NVQ Provider shall keep the documents in paper or digital form for at least five years after the completion of the verification and certification procedure. If the contractor ceases to operate, the National Examination Centre shall take over its documentation and keep it for at least five years after the completion of the verification and certification procedure.

Once the certificate is awarded (or refused upon a final decision), the personal portfolio shall be returned to the candidate.

### **10.2.2. Important/exceptions**

In the NVQ verification, examination and certification process, the criteria for evaluating the candidate's achievements are very important. The criteria help the NVQ Commission in the evaluation of the documents and both the NVQ advisor and the candidate in preparation of personal portfolio.

The Criteria and other information issued by the NVQ Commission members for Individual National Vocational Qualifications are available on the National Examination Centre's website: [http://www.ric.si/kvalifikacije/clani\\_komisij/banka\\_nalog/](http://www.ric.si/kvalifikacije/clani_komisij/banka_nalog/).

In general, the personal portfolio and the evidence are assessed by members of the NVQ Commission in two stages.

- In the first stage, individual evidence is evaluated based on the following criteria: credibility, validity and relevance.
- In the second stage, the personal portfolio as a whole is examined by the commission members and then assessed based on three criteria: sufficiency, diversity, complexity.

#### **Authenticity (credibility)**

For those pieces of evidence that are included in the personal portfolio, it is necessary to determine whether they actually refer to the candidate. If a deliverable is included in the candidate's personal portfolio, it is necessary to establish whether the product is really his/her work. In doing so, any reference letters from employers or persons who followed up the candidate in the process of making the product or during the working process may help.

The authenticity of documents can also be established based on the information contained in a document. The letters issued by legal entities shall include the official company header with the corresponding company details. A letter issued by a state institution shall show a stamp. The letter shall be clearly legible and show its reference number and the date of issuing the document. If a reference letter is provided by a company, it should also show contact details of the person able to confirm the credibility of the document in case of doubt. If a reference letter is provided by the candidate's client, a natural person, the author's contact details are desirable.

All these documents should include the following items:

- information on the institution issuing the document;

- information on the candidate the document was issued to (name and surname and at least one additional information related, e.g. birth date);
- signature of the institution's responsible person.

For assessing articles or other printed documents, the date and place of their issuing shall be provided.

After checking the documents, the NVQ advisor assisting the candidate in drawing up a personal portfolio may add a note "Copy Equal to the Original" on copies of official documents and sign when the original has been provided by the candidate.

### **Validity**

The evidence and the deliverables included in a portfolio shall be valid without time limitation. The evidence shall prove that the knowledge acquired by the candidate is still applicable and that he/she is able to perform required tasks properly. How long a certain deliverable or work certificate is valid is difficult to determine in general. In some disciplines, knowledge or skills may become obsolete within a year or two (e.g. computer sciences), while in other areas, knowledge, skills, and technology may change at a lesser pace. Therefore, it is necessary to assess the evidence and the deliverables in view of the candidate's current job.

Though some of the evidence and the curriculum vitae supporting the documents attached might be of an older date, it is important for the candidate to provide other evidence proving he/she is still performing these particular tasks. In particular, it is necessary to consider each candidate separately and to evaluate the validity of the evidence in the context of his/her entire personal portfolio. Meanwhile, the validity cannot be assessed by means of formal evidence, i.e., the evidence allowing the applicant to claim an education level (school certificates, diplomas) or by which his/her level of qualification and thus the salary grade is recognised by the company employing him/her, since the rights arising from these certificates can never become obsolete.

### **Relevance**

For each piece of evidence submitted, the extent to which it complies with the requirements set in the Catalogue of Standards of Professional Skills and the Occupational Standard for the desired NVQ is established.

The occupational standard defines the typical jobs within the qualification the candidate intends to have certified. The Catalogue of Standards of Professional Skills stipulates the methods of verifying and certifying the skills for the selected qualification. Each piece of evidence shall be compared with both these documents to determine its relevance in view of the content provided there. At this point, it should be noted that the evidence may relate to several areas of work listed in the occupational standard in question, and not just one.

A good reference letter shall clearly state the areas of work within the candidate's activity and be clearly referring to the areas of work listed in the corresponding occupational standard. It shall also note the preference to training certificates which provide the details on the training programme content, the candidate's competences, the methods of knowledge examining possibly included in this programme, to those which are merely stating the training name and number of hours. When comparing the deliverables, acknowledgements, articles, or any other printed documents, attention shall be paid on whether the deliverables refer to the content of the occupational standard.

Having assessed the individual evidence included in the personal portfolio, the commission evaluates the personal portfolio as a whole. Based on the evidence provided, the members of

the commission may recognise either the candidate's individual areas of work or his/her entire qualification.

### **Sufficiency**

Sufficiency refers to the amount of evidence provided. On this basis, the NVQ commission can establish whether the evidence is sufficient for the candidate to prove he/she masters a certain competence independently and in different circumstances. For this purpose, the areas of work within the corresponding occupational standard (especially operational work) are compared with the evidence assessed in order to reach the expert judgement on whether the candidate is able to master the required competencies independently. Based on this evidence, the commission can decide which of the competencies to recognise.

### **Diversity**

As a criterion, diversity serves to signify how diversified the evidence is and in how complex a candidate's qualification is presented. Thus, the evidence can either be indirect (reference letters provided by previous or current employers, special awards or mentions, articles written by the candidate, pictures or videos on products or work performed by the candidate, a training certificate) or direct (deliverables or the candidate's own work, e.g. computer program, training manual, educational programme, article in press, video).

### **Complexity**

Complexity serves as a complementary criterion. Should the NVQ commission remain unconvinced whether to recognize or not a qualification based on the candidate's personal portfolio, which is especially the case when all the areas listed in the occupational standard are well covered by the collection folder but the evidence is insufficiently diversified, this criterion may help. In such a case, the NVQ commission may assess the candidate's "complementary" knowledge and skills that are not required by the Catalogue of Standards of Knowledge and Skills, but which are nevertheless valuable. In general, the so-called soft skills, such as work accuracy, self-discipline, teamwork capacities, or relations with colleagues, are relevant, while more specific skills, such as foreign languages, communication skills, ability of teamwork, can also be considered.

### **10.2.3. Tips from professionals**

The objective of consultancy to students - NVQ candidates - is to help them build up portfolios that represent their capacities and achievements and set up a transparent and relevant documentation.

Every FDI advisors' mentor should create his/her own personal portfolio since the process and the possible challenges can hardly be understood without personal experience in doing so.

When giving advice to your student, present the criteria following which the candidate's achievements will be assessed and provide the student the proper guidance to consider these criteria in the process.

### 10.3. ADDITIONAL READING

For further information on NVQ procedures, providers including their role and significance, consultants including their role, significance and tasks, check the following websites:

- <http://www.npk.si/domov/> (National Vocational Qualifications)
- <http://www.nrpslo.org/> (National Reference Point for Occupational Qualifications in Slovenia)

All the information related to the NVQ verification, examination and certification is published on the National Information Centre's website featuring systematically arranged sub-pages for the contractors, consultants, candidates, commissions: <http://www.nrpslo.org/>:

In addition, Ministry of Employment has published information on the NVQ on its website <http://www.NVQ.si/domov/>.

For additional information on collection folders and appointments for training on NVQ process advisers, see National Information Centre website (local abbreviation: NRP): <http://www.nrpslo.org/>.

On the sub-pages of this website, training materials for the personal portfolio providers are also presented:

<http://www.nrpslo.org/files/userfiles/Dokumenti/gradivo%20za%20svetovalce%202011.pdf>.

The NRP has also published some very useful ethical guidelines for consultants. Available via: [http://www.nrpslo.org/svetovalci/eticne\\_smernicevsvetovanju.aspx](http://www.nrpslo.org/svetovalci/eticne_smernicevsvetovanju.aspx)

The National Institute for Adult Education is offering materials intended for consultants when drawing up a portfolio. These are published on the following website:

[www.mizs.gov.si/fileadmin/mizs.gov.si/pageuploads/podrocje/odrasli/Gradiva\\_ESS/ACS\\_Izo\\_brazevanje/ACSIzobrazevanje\\_85Navodila.pdf](http://www.mizs.gov.si/fileadmin/mizs.gov.si/pageuploads/podrocje/odrasli/Gradiva_ESS/ACS_Izo_brazevanje/ACSIzobrazevanje_85Navodila.pdf)

## 10.4. QUIZ AND EXERCISES

### Quiz:

1. When can skills and knowledge be acquired through non-formal learning certified with the National Vocational Qualification (NVQ) system in Slovenia?
  - a) when the initiative for publicly certified NVQ is confirmed;
  - b) when the Occupational standard is prepared;
  - c) when the initiative for publicly certified NVQ is confirmed and the Catalogue of Standards of Professional Knowledge and Skills is confirmed by relevant authorities;
  - d) when the initiative for a publicly certified NVQ is sent and Occupational Standard is confirmed by relevant authorities.
  
2. Which three steps are included in the procedure for obtaining the certificate?
  - a) Candidate's application, preparation of his/her portfolio and verification, examination and certification.
  - b) Candidate's application, preparation of his/her portfolio and examination.
  - c) Candidate's CV, preparation of his/her portfolio and verification, examination and certification.
  - d) Candidate's application, preparation of his/her CV and verification, examination and certification.
  
2. Does the candidate have to accept the offered additional training, in case that based on the documentation in Collection Folder the NVQ Commission establishes that he/she doesn't have all the required knowledge, skills and competences?
  - a) No. The candidate may opt to prove his/her qualifications through the exam.
  - b) No. The candidate may file a complaint to the National Examinations Centre.
  - c) Yes. The offered additional training is obligatory.
  
3. What is a personal portfolio?
  - a) A collection of an individual's competence achieved by any (formal, non-formal, occasional) learning.
  - b) A collection of an individual's (working, life) experience.
  - c) A collection of an individual's competence achieved by any formal learning or working experience.
  - d) A collection of an individual's competence achieved by any (formal, non-formal, occasional) learning or (working, life) experience.
  
5. Which are the basic elements of a personal portfolio?
  - a) Documents that prove compliance with special terms and conditions, presentation of the candidate (CV), proof of work experience, proof of education and training.
  - b) Documents that prove compliance with special terms and conditions, presentation of the candidate (CV), proof of education and training.
  - c) Documents that prove compliance with health conditions, presentation of the candidate (CV), proof of work experience, proof of education and training.
  - d) Documents that prove compliance with special terms and conditions, presentation of the candidate (CV), proof of work experience.

6. What does the Collection Folder include beside the personal portfolio?
- a) Application for certification, record on the course of certifying the national vocational qualification based on documents, record(s) of the direct verification of the national vocational qualification.
  - b) Application for certification and consulting record.
  - c) Application for certification, consulting record, record on the course of certifying the national vocational qualification based on documents, record(s) of the direct verification of the national vocational qualification.
  - d) Consulting record, record on the course of certifying the national vocational qualification based on documents.
7. On what basis the NVQ Commissions evaluate the documents, provided by the NVQ candidate?
- a) Criteria and other information publicly issued by the NVQ Commission for a specific NVQ.
  - b) Authenticity of the candidate's documentation.
  - c) Personal expert evaluation.
  - d) Personal opinion.

Exercises:

Exercise:

Step 1:

Imagine you want to obtain an NVQ certificate for the NVQ »Bookkeeper«.

Prepare your portfolio based on the Catalogue of Standards of Professional Knowledge and Skills for Bookkeeper's requirements.

Step 2:

Evaluate your portfolio based on the assessment criteria for »Bookkeeper« and asses if you:

- a) Can obtain the certificate automatically.
- b) Need some additional training.
- c) Can prove your knowledge through the exam.

# CORRECT ANSWERS

## Module 1

### Quiz

1. a
2. b
3. b
4. a
5. c
6. a
7. c
8. b
9. a
10. c
11. c
12. a
13. a
14. c
15. a
16. d

### Exercises:

Exercise 1:

EUR 32,000 \* 20% = EUR 6,400 tax base

6,400 EUR \* 20% (income tax) = 1,280 EUR

Exercise 2:

In order to enter into the business register, the future sole proprietor must bring a valid personal identification document and a Slovenian tax number to one of the VEM points; and state the following:

- proposed date of entry which is later than the date of filing the application for registration and is not longer than three months from the date of filing the latter.
- firm and abbreviated firm (name of the business entity).

- information on the business address.
- information about the proprietor and the business entity's representative (name and surname, personal identification number, residence address and tax number).
- all business activities that he/she wishes to pursue.
- data on other parts of the proprietor as units of the business register in accordance with the law governing the Business Register of Slovenia.

He must also provide:

- a statement by the proprietor that he/she has no outstanding commitments from previous business operations.

Exercise 3:

- proof from the business register where the parent company is registered;
- business report for the last business year (in a short version);
- information on the bank account of the parent company (name of the bank, currency in which it operates, the bank account number);
- copy of the legal representative's passport;
- company's establishment act;
- tax number of the parent company and information on the activities of the parent company (in case this cannot be deduced from the founding act);
- address of the branch, the branch's business activities (the branch's activities must be the same as the activities of the parent company);
- name and legal form of the parent company and the name of the branch;
- information on the legal representatives of the parent company.

Exercise 4:

30 - 40 EUR per month.

Exercise 5:

- identity card (or passport).
- survey by the Chamber of Commerce.
- declaration that the company has been assessed and has no debts (official statement from the Slovenian Ministry of Finance).
- declaration that the balance sheet was closed at zero.
- declaration that the previous company data were removed and replaced with the new data.

## **Module 2**

### Quiz

1. a

- 2. a
- 3. b
- 4. d
- 5. a
- 6. a
- 7. c
- 8. d
- 9. a
- 10. b
- 11. b
- 12. c
- 13. a
- 14. d
- 15. b
- 16. c

Exercises:

Exercise 1:  
ZGD – Chapter 8

Exercise 2:  
c)

Exercise 3:  
No

Exercise 4:  
Correctly filled form: [https://edavki.durs.si/OpenPortal/Dokumenti/dr\\_02.i.sl.pdf](https://edavki.durs.si/OpenPortal/Dokumenti/dr_02.i.sl.pdf)

Exercise 5:

Cost type	Cost amount [€]
<b>Accounting</b>	150
<b>Bank account</b>	10

<b>Business premise (20 m<sup>2</sup>)</b>	400
<b>Additional costs (e.g. the Internet, electricity...)</b>	100
<b>Payroll costs for an employee earning €1,000</b>	2640
<b>Total</b>	3300

Exercise 6:

He/she needs a license for organizing tourist packages.

For every implementation of a tourist arrangement at home and abroad, the provider must provide a tourist companion or tourist guide with an appropriate license for each organized group.

## Module 3

### Quiz

1. i a
1. ii c
1. iii d
2. b
3. d
4. a
5. d
6. c
7. b
8. a
9. c
10. a
11. d
12. b
13. b
14. d

15. a

16. b

17. a

18. c

### Exercises:

#### Exercise 1:

Examples of goods and services where a tax rate of 9.5% is charged are food and catering, water supply, certain medicines, flats which are part of social policy, minor repairs, hairdressing services... Examples of exempt transactions are financial transactions, health services, school activities.

#### Exercise 2:

- Recording
- Planning
- Decision-making

#### Exercise 3:

A complete set of financial statements, based also on Slovenian accounting standards, comprises:

- a statement of financial position as at the end of the period;
- a statement of profit and loss and other comprehensive income for the period. Other comprehensive income is represented by those items of income and expenses that are not recognised in profit or loss in accordance with international Financial Reporting Standards (IFRS Standards). IAS 1 allows an entity to present a single combined statement of profit and loss and other comprehensive income or two separate statements;
- a statement of changes in equity for the period;
- a statement of cash flows for the period;
- notes, comprising a summary of significant accounting policies and other explanatory information; and
- a statement of financial position as at the beginning of the preceding comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

#### Exercise 4:

a)

#### Exercise 5:

- i) a
- ii) a
- iii) b
- iv) b
- v) a
- vi) a
- vii) b

Exercise 6:

- i) a
- ii) b
- iii) a
- iv) b

Exercise 7:

In Slovenia, most commonly used is accounts chart of the Slovenian Institute of Auditors, which can be found here: <http://www.si-revizija.si/sites/default/files/standardi/enotni-kontni-nacrt-gd.pdf>.

From the list, you can specify the accounts:

- Investments in Internet sites - 005,
- Land - 022,
- Equipment - 040,
- Investments in government bonds - 060,
- Bank account - 110,
- Buyers of services from the EU - 121.

## **Module 4**

### Quiz

- 1. d
- 2. a
- 3. c
- 4. b
- 5. a
- 6. a
- 7. c
- 8. a
- 9. b
- 10. b

11. b

12. a

### Exercises:

Exercise 1:

<https://www.gzs.si/Dogodki/10-05-2018/brezplacni-posvet-kako-zakonito-oddajati-preko-airbnb-ali-bookingcom>

or

<https://www.gzs.si/Dogodki/9-05-2018/brezplacni-posvet-kako-zakonito-oddajati-preko-airbnb-ali-bookingcom>

Exercise 2:

Filled-out application form: <http://www.sklad-kadri.si/si/razpisi-in-objave/razpis/n/javni-razpis-za-sofinanciranje-neformalnih-izobrazevanj-in-usposabljanj-zaposlenih-254-jr/>

Exercise 3:

Slovenian Enterprise Fund

## **Module 5**

### Quiz

1. c

2. d

3. b

4. b

5. b

6. c

7. a

8. c

9. b

10. d

11. c

12. b

13. a

14. a

15. d

### Exercises

Exercise 1:

Yes.

Exercise 2:

1. ZDR-1:

- 20 days base, minimal;
- 1 day for each child (1 additional day belongs to the worker for each child who has not yet reached the age of 15);
- total days for annual holiday: 21;

2. Health:

- for 15 to 20 years of service: 22 days;
- 1 day for each child;
- total days for annual holiday: 23;

3. Trade:

- 20 days base;
- 5 days for 15 to 20 years of service;
- 1 day for each child;
- total days for annual holiday: 26;

4. Construction:

- 20 days base
- 2 days for 10 to 25 years of service
- 1 day for each child
- total days for annual holiday: 23

5. Catering:

- 20 days base
- 2 days for over 10 to 20 years of service
- 1 day for each child
- total days for annual holiday: 23

Exercise 3:

A contract of employment means the conclusion of an employment relationship for an indefinite or fixed term. First, post a vacancy i.e. the need for a worker to the Employment Service, then choose a candidate, sign an employment contract with him, and register your new employee for the compulsory social security as an employer. Seasonal work is defined in Slovenia in a fixed-term employment contract.

1. A free job can be published free of charge by the Employment Service of Slovenia (ESS) or you can choose to publish it in the media, on websites or in your publicly available business premises.

You can send the vacancy notice to the ESS directly, personally or by post with the application form called the »PDM-1 Form« or through the e-services of the EES AND the e-VEM system (SPOT).

PDM-1 Form: Free Workplace Notice. Registration to ESS: [https://www.ess.gov.si/delodajalci/objava\\_prostega\\_delovnega\\_mesta](https://www.ess.gov.si/delodajalci/objava_prostega_delovnega_mesta) (27 September 2018)

2. Conclusion of a contract of employment (example for fixed-term employment contract).

The employment contract must be concluded in written form. Each contract is concluded when signed by both parties: the worker and the employer.

A fixed-term employment contract (for performing the same work assignments) is concluded for the time it takes to carry out the work. The contract for the same work is limited to a maximum of two years.

Zveza računovodij, finančnikov in revizorjev Slovenije: A Sample of a Fixed-term Employment Contract: <http://www.zvezarfr.si/pripomocki/tipski-dokumenti/pogodba-ozaposlitvi> (27 September 2018)

3. After entering into a contract of employment, you must, as an employer, register a worker with compulsory social security. The application shall be accompanied by an employment contract in the case of a registration of a worker who is in a contractual relationship.

As an employer, you must register a worker for compulsory social security from the day of entering into work under an employment contract, but at the latest before commencing work. If the worker does not start work for justifiable reasons on that day, the application must be submitted no later than on the day that is agreed upon in the employment contract as the day of entering the work.

The application for compulsory social insurance is to be submitted on the M-1 Form.

Compulsory social insurance includes: pension and disability insurance, health insurance, parental insurance, unemployment insurance.

#### Method of filing out the M-1 Form

As from 1 January 2016, the compulsory social insurance, for which you are obliged to register compulsory social insurance in the Business Register of Slovenia (e.g. a company, sole proprietor, self-employed person, an institution), must be regulated through the e-VEM portal,

Registration and modification of data using the M-1 form via the e-Vem portal: <http://evem.gov.si/info/pomoc-in-podpora/navodila-za-izvedbo-e-postopkov/> (27 September 2018)

## Module 6

### Quiz

1. d
2. b
3. d
4. a
5. a
6. c
7. c
8. a
9. a
10. b
11. a
12. b
13. a
14. d
15. c
16. b
17. d
18. a
19. c
20. b
21. d
22. a

### Exercises:

#### Exercise 1:

Form for a short-stay (Schengen) visa has to be filled and copy of identity card or passport attached.

[http://www.mzz.gov.si/fileadmin/pageuploads/Konzularne\\_informacije/vizne\\_informacije/obrazci/Vloga\\_za\\_kratkorocni\\_vizum\\_SI-EN.pdf](http://www.mzz.gov.si/fileadmin/pageuploads/Konzularne_informacije/vizne_informacije/obrazci/Vloga_za_kratkorocni_vizum_SI-EN.pdf)

Exercise 2:

Completed form

<http://www.upravneenote.gov.si/fileadmin/pageuploads/ue-zalec/DOC/Obrazci UE Zalec/21 Oddelek za upravne notranje zadeve/11 Tujci/DRZAV LJANI EGP ALI DRUZINSKI CLANI SLO DRZAVLJANA/21 11.A Prosnja za izdaj o oz. obnovo potrdila o prijavi prebivanja za drzavljana EGP.pdf>

Exercise 3:

An application for the issuance of the first single permit shall be filed by an foreigner at the competent diplomatic mission or consulate of the Republic of Slovenia abroad.

Requests (forms are published in the Official Gazette of the Republic of Slovenia and on the website of the Employment Service of Slovenia) should be accompanied by the following supporting documents:

- h. a certified photocopy of a valid passport,
- i. evidence of adequate health insurance,
- j. proof of sufficient means of subsistence,
- k. an employment contract or an agreement on the performing of a job,
- l. certificate of no criminal record from the competent authority of the country of origin (must not be older than 3 months),
- m. other evidence of the fulfillment of the conditions which are defined in the Foreigners Act for the issue of individual types of residence permits; and
- n. other evidence of compliance with the conditions laid down by the Employment, Self-Employment and Work of Foreigners Act to give consent.

**Additional supporting documents required for obtaining a single work permit:**

- a photograph of a foreigner or a reference number from an electronic clipboard of photographs,
- evidence of the appropriate education or professional qualification of an foreigner or the fulfillment of other conditions required by the employer,
- a signed declaration by the employer, whether or not he will provide accommodation for the foreigner,
- the employer's statement and proof that he invested at least EUR 50,000 in an activity in which the foreigner would work, prior to the application for a single permit (if the employer is registered less than six months).

Exercise 4:

Form : [http://www.mzz.gov.si/si/vstop\\_in\\_prebivanje/obrazci/](http://www.mzz.gov.si/si/vstop_in_prebivanje/obrazci/)

Supporting documents for **Short-stay visa (Visa-C)** application should contain evidence of:

- the purpose of intended journey (for business visit invitation of the company, ticket, etc.),
- proof of accommodation,
- proof of health insurance,
- proof of sufficient funds for the duration of the stay and for return to the domestic country,
- proof of intent to leave the territory of the EU member states before the expiry of the visa you applied for (return ticket, proof of employment, etc.).

#### Exercise 5:

Documentation needed:

To acquire permit for a family member, a foreigner must have:

- proof of existence of a family relationship (with the original marriage certificate, original children's birth certificate, etc.). If the documents are not in the official international form, they must be translated into Slovenian language and verified,
- fulfilled general conditions for family members (which are the same as for the temporary residence permit):
  - A valid passport,
  - health insurance covering at least urgent health care services in Slovenia,
  - sufficient monthly means at least equal to the basic minimal income in Slovenia,
  - a police clearance certificate (not older than three months) from your home country, with a verified translation in Slovenian language.
  - formal photography.
  - At a diplomatic mission or consulate of the Republic of Slovenia abroad, a family member must also provide two fingerprints for their digital capture.

## Module 7

### Quiz

1. c
2. b
3. b
4. a
5. d
6. a
7. b
8. a

- 9. c
- 10. a
- 11. a
- 12. d
- 13. c
- 14. c
- 15. b
- 16. b
- 17. c
- 18. d
- 19. a
- 20. b
- 21. d
- 22. a
- 23. a
- 24. a
- 25. b
- 26. a
- 27. b
- 28. a
- 29. c

Exercises:

Exercise 1:

<b>RIGHTS</b>	<b>COMMON PROBLEMS</b>
Own a real estate	Inter-neighborly dispute over the borders
Manage a real estate	Access to land
Prevent others from encroaching upon a real estate	Bureaucracy
Enjoy ownership over a real estate	Systemic problems and limitations
Sell, surrender, give away, leave real estate.	Unordered documentation

## Exercise 2:

Surveying and Mapping Authority of the Republic of Slovenia

## Exercise 3

EUR 6,400 + EUR 50,000 \* 8% = 6,400 + 4,000 = EUR 10,400

## Exercise 4

Form:

<http://www.mp.gov.si/fileadmin/mp.gov.si/pageuploads/mp.gov.si/novice/2018/180831.pdf>

The procedure starts at the request of an foreigner who wants to acquire a property right on real estate in the Republic of Slovenia. An foreigner who does not live in the Republic of Slovenia is obliged to appoint a proxy in the Republic of Slovenia in accordance with the General Administrative Procedure Act (Official Gazette of the Republic of Slovenia, No. 24/06 - official consolidated text, 105/06 - ZUS-1, 126/07, 65/08, 8/10 and 82/13).

Under Article 8 of ZUV, the application for the establishment of reciprocity is to be enclosed with:

- personal data of a foreigner (in the form of a public document in the original or certified photocopies - passport or identity card);
- proof of nationality (in the form of a public document in the original or certified photocopies - passport or other certificate); in the case of several nationalities of an foreigner, it is necessary to indicate where the foreigner has his permanent residence OR where the foreigner had his last residence before obtaining a permanent residence permit in the Republic of Slovenia;
- a land registry statement for a property in a proceeding;
- the acquirer's legal interest (a document by which the client displays at least one of the conditions for obtaining a property right under the law or international agreement - e.g. a draft of a sales contract, a pre-contract, the contract itself);
- a statement of the purpose for which the property is acquired (e.g., stay, secondary residence, pursuit of an activity);
- a real estate document issued by a competent branch of the Surveying and Mapping Authority of the Republic of Slovenia in accordance with the Instructions for Filling in a Document with Real Estate Data in the Procedure for Determining Reciprocity (Official Gazette of the Republic of Slovenia, No. 24/99), which should not be older than 45 days from the date of issue.

## Exercise 5

Registration procedure:

- Each user must have a web-qualified digital certificate issued by SIGEN-CA, SIGOV-CA, AC-NLB, POSTA-CA or HALCOM;
- Fill in the appropriate application for registration of the organization and users and send it to the address: Surveying and Mapping Authority of the Republic of Slovenia, Zemljemerska ulica 12, Ljubljana or scanned to the e-mail address [gurs@assist.si](mailto:gurs@assist.si);

- By request, we will send you an invoice for registration fees (only in case of first registration). The registration fee amounts to EUR 75 plus value added tax (regardless of the number of users). Registration is free for public administration bodies and judicial authorities. Similarly, the registration is free of charge for the entry of data from the aggregate cadastre of public utility infrastructure;
- After payment of the invoice, we give your users access and contact the organization's contact person by e-mail about the assigned user name, password and the application's web address.

#### Exercise 6

Auctions websites, for example:

<http://www.javnadrazba.si/index.php>

<https://www.nepremicnine.net/javne-drazbe.html>

<https://www.drazbe123.com/>

#### Exercise 7

The basic **risks** of investing in real estate are as follows:

- Business risk.** It can be defined as the risk of change (reduction) of income from real estate, due to changes in the economic activity of a certain economic area that can cause people to move, reduce their incomes, increase operational costs related to real estate, deteriorate businesses etc. These changes affect the demand for real estate and consequently the realized rents of investors. Investors can reduce this risk by dispersing investments in various types of real estate, which are of different sensitivity to this kind of risk, or with appropriate forming of lease contracts (e.g. rentals for which the lessor covers costs only up to a certain amount, and the difference is covered by the lessee).
- Financial risk.** This is due to the use of leverage in financing the investment in real estate, since liabilities arising from debt financing are of a fixed nature. Therefore, in the event that the property does not yield an adequate return for a long time, liabilities to the lenders can cause the project to collapse. The investor can protect himself against financial risk with an appropriate debt structure (e.g. participatory loans), by refinancing or rescheduling of loans in agreement with the lender, etc.
- Liquidity risk.** It exists on the market with a relatively small number of sellers and buyers where there are few transactions with certain goods. Low market liquidity means that the client who is forced to enter into a transaction within a relatively short period of time needs to pay an appropriate (monetary) premium. Relatively poor market liquidity is also common to the real estate market, especially for specialized real estate (e.g. health facilities), which can not be easily adapted for other purposes. Therefore, there is a risk that the seller of real estate will have to sell the property at a discounted price in the event of a rapid liquidation of assets.
- Inflation risk.** The rise in prices can lead to a reduction in the real value of income that an investor receives from a real estate, if he is not insured with appropriate measures beforehand (e.g. valorized rent which is corrected for the rate of price growth of consumer goods).
- Management risk.** It is related to the ability of real estate managers (their innovativeness, adaptability, ...) regarding the maintaining of real estate value and their expected yield.

f) **Interest rate risk.** Changes in interest rates affect profitability of investments in real estate, because on the one hand they influence the investor's costs of debt financing, while on the other hand facilitating the potential tenants of the premises (fall in interest rates) or make it more difficult (rise in interest rate) for them to access cash, thereby affecting the price (rent) that they are willing to pay. Because in financing of real estate generally a relatively high leverage is used, changes in interest rates can cause significant losses or profits to their investors. As insurance against interest rate risk various financial instruments are used, for example, interest rate swaps, interest rate caps, etc.

g) **The risk of changes in legislation.** The area of real estate is relatively heavily regulated, therefore, changes in legislation may have a major impact on their profitability.

h) **Environmental risk.** Also changes in the environment, awareness of the harmful consequences of use of certain materials can have a significant impact on the value of real estate (e.g. use of asbestos for the insulation of real estate was sometimes completely normal, but today it is regarded as a harmful substance; or e.g. detection of a nearby radioactive material deposit, etc.).

#### Exercise 8

(Actual data about the apartment:

Sale: Apartment

Floor: 3/12

Year: 1972

72.5 m<sup>2</sup>, 3 rooms, built in 1972, adapted in 2016, floor 3/12, to be sold. Price: EUR 105,000.00)

Steps:

- survey of the value of a similar real estate (the offer is good, similar property is more expensive)
- estimation of the value of the received rents
- estimate of profit after sale
- contract is drawn up by a lawyer

#### Exercise 9

17 EUR

#### Exercise 10

A real estate agent is an individual who is adequately trained and qualified for brokerage in real estate transactions and is usually employed or works with a real estate company that offers brokerage in the sale of real estate as its service. The agent rarely acts as an independent service provider on the market.

## Module 8

### Quiz

1. c

2. a

3. c

4. d

5. c

6. b

7. b

8. d

9. a

10. c

11. d

12. b

13. b

14. b

15. a

16. d

17. d

18. d

19. d

20. b

21. d

22. a

23. c

24. b

25. d

26. b

27. b

28. a

- 29. a
- 30. c
- 31. c
- 32. b
- 33. a
- 34. d
- 35. c
- 36. d
- 37. b
- 38. c
- 39. a
- 40. d
- 41. b
- 42. c
- 43. a
- 44. d
- 45. b

Exercises:

Exercise 1:

Check how many facts did you miss and how important they are regarding the original story. For a good result, you should have also written down information about the speaker's body language.

Your answer is good

- if you remembered important information from 8 or more sentences and if you wrote at least one information from body language.

Your answer is partially good /incomplete

- if you remembered important information from 6 or 7 sentences and if you wrote at least one information from body language of the speaker, or
- if you remembered important information from at least 5 sentences and if you wrote more than 3 information from body language of the speaker.

Your answer is weak

- if you remembered less than 5 sentences.

### Exercise 2:

Your answer is good

- if you recognized properly more than 80% signals of body language and if you have included more than 80% of written text in your speech.

Your answer is partially good / incomplete

- if you recognized properly 50%- 80% signals of body language and if you have included 50%- 80% of written text in your speech.

Your answer is weak

- if you recognized less than 50% signals of body language or if you have included less than 50% of written text in your speech.

### Exercise 3:

Your answer is good

- if you have managed to estimate for each person at least one of their personality blends (example: for choleric/sanguine you wrote only choleric or only sanguine).

Your answer is partially good / incomplete

- if you have managed to estimate for 2 or 3 persons at least one of their personality blends, or  
- if you have managed to estimate for 2 persons exactly personality blend (example: choleric/sanguine).

Your answer is weak

- in other cases.

### Exercise 4:

Your answer is good

- if you applied "Win/Win" type of negotiation as a buyer and as a seller.

Your answer is partially good / incomplete

- if you applied "Win/Win" type of negotiation at least ones (as a buyer or as a seller).

Your answer is weak

- if you didn't apply "Win/Win" negotiation type.

### Exercise 5

Good preparation includes 4 steps:

1. setting the highest and the lowest goal of the negotiations
2. preparation of materials for taking notes and writing conclusions
3. (psychic space) setting up the chairs on a decent distance between you and your interlocutor

4. (physical space) preparation of neat, clean and warm space, not too small, not too big, which is not transitory.

Your answer is correct:

- if you specified all 4 answers.

Your answer is partially correct / incomplete

- if you specified 2 from 4 answers, or
- if you specified all 4 answers in part.

Your answer is wrong

- if you specified less than 2 answers.

### Exercise 6

If you applied elements of avoiding hard negotiation:

- repress excessive self-confidence of the interlocutor on time;
  - shock the interlocutor by announcing an extreme request, not letting him to do it first;
  - keep self-control and control of the interlocutor;
  - promptly alert the interlocutor that the hard competition is not an option;
- and accomplished at least minimum of your expectation, then your result is good.

If you applied 50% mentioned elements of avoiding hard negotiation your result is partially good / incomplete.

If you didn't apply elements of avoiding hard negotiation or if you applied less than 50% mentioned elements and if you didn't accomplish at least minimum of your expectation, then your answer is weak.

## Module 9

### Quiz

1. a
2. c
3. a
4. b
5. b
6. d
7. b

## Exercises:

### Exercise 1

The purpose of the introductory conventional lectures is:

- getting to know the basic concepts of individual modules,
- learning about e-learning materials,
- getting familiar with examples from practice,
- motivating,
- discussing the key content of the modules.

### Exercise 2

The course of Module 1 execution consists of the following components:

#### 1. Introductory meeting

The introductory meeting in the classroom is intended for the meeting of the mentor and participants, learning about the subject matter, study literature and the work method. The mentor presents an overview of the subject matter and the work schedule, defines the requirements and activities as well as deadlines for completing including activities. It also publishes learning objectives and expectations and defines rules of behaviour and acting in the course.

#### 2. Activities of the participants

Participants study the learning materials and participate in various forms of collaborative learning and communication.

#### 3. Activities of the mentor

The mentor regularly monitors participants' activities, encourages cooperation and communication. In particular, asynchronous communication is foreseen, and if necessary, long-distance synchronous communication is organized at least once a week. The mentor monitors students' work, directs and observes their progress, actively participates, promotes and leads interactive discussions, answers questions, directs the learning, checks students' work, and provides feedback and recommendations related to learning activities or received products. At the end, the mentor evaluates and grades students' work (test).

## **Module 10**

### Quiz

1. c

2. a

3. a

4. d

5. a

6. c

7. a

Exercises:

Exercise 1

Answer:

1. Fullfilled portfolio.
2. Selected one of the possible step 2 answers.

## Annex 1.1 – Other profit making business entities

### 1.1.a. Unlimited liability company (d.n.o.)

An unlimited liability company is a company of at least two or more persons who are liable for the obligations of the company with all of their assets. The company is established by a contract between the founders, who may be natural or legal persons.

The establishment of a company with unlimited liability does not require a minimum share capital, so the company can be registered without any kind of capital.

Nevertheless, if founders do put in some capital, they each contribute the same amount unless otherwise agreed.

Mutual rights and obligations between the founders are regulated by a contract which among other defines that founders are obliged to immediately hand over to the company all the benefits gained from the management and business activities of the company. Each founder is entitled to a stake in the company's profits. If a founder is not expressly exempted from representation, the company may be represented by all of them.

If the company reports a loss at the end of the financial year, the loss is divided into equal parts among the founders.

Each founder can withdraw money from the company's cash register (the amount may not be more than 5% of his share capital).

Because founders of a d.n.o. are liable for the company's operations with all of their assets, caution is needed when deciding on this form of business.

*Table: Advantages and disadvantages d.n.o.*

<b>Advantages</b>	<b>Disadvantages</b>
<b>Capital for registration is not required</b>	Liability for business operation with all assets (including personal)
<b>Obtaining a loan is easier than for sole proprietors</b>	Reliance on the company, great interdependence of founders
<b>Services are regarded as founding capital</b>	It is one of the riskier business organizational forms

### 1.1.b. Share holding company (d.d.)

A share holding company is a company the founding capital of which is divided into shares. The minimum amount of the founding share capital is euros 25,000, while the lowest nominal amount of the share is euro 1. At least one third of the share capital must comprise shares that are paid in cash.

A share holding company is liable for its obligations with all its assets, while shareholders are not liable for the company's liabilities.

Such a company can be founded by one or more natural or legal persons who adopt a statute at the notary.

The founding share capital has three main functions: it is the basis for determining the share of a shareholders' share in terms of the nominal amount of the shares, it enables the start-up of the company and guarantees that all debts will be repaid.

A share holding company is the right selection when a foreign investor wants to trade with shares on the stock market.

However, this is not possible immediately upon establishment, as the conditions for listing on the stock market need to be met first. Therefore, in most cases it makes sense to establish a d.o.o. When the business expanded sufficiently, and the company qualifies for listing on the stock market, its form should be transformed from d.o.o. into d.d.

*Table: Advantages and disadvantages of a share holding company d.d.*

Advantages	Disadvantages (in comparison with a limited liability company - d.o.o.)
Possibility to operate on the stock exchange	Founding capital is higher
	Establishing a company is more demanding
	Operating costs are higher

### 1.1.c. Company with share capital (k.d.)

K.d. may be established by two or more persons, wherein at least one of these co-founders is liable with all his/her assets (unlimited partner) and at least one co-founder has a limited liability (limited partner). Co-founders may be citizens of Slovenia or foreigners; legal or natural persons. The name of a company with share capital must consist of at least one name of the co-founder, who has unlimited liability in the company and of the »k.d.« abbreviation.

Founding capital can include cash, in kind contributions or services, if the value of non-cash contributions can be estimated.

A limited partner is not entitled to conduct business of the company, nor can he/she oppose the operations of an unlimited partner. However, if the unlimited partner acts contrary to the Companies Act, the limited partner is equally liable.

Partners who think about establishing such a company should consult with experts and then decide if this type of company is really the most suitable for them.

Table 6: The advantages and disadvantages of a company with share capital

Advantages	Disadvantages
Founding capital is not mandatory.	Unlimited partner is liable for the company's obligations with all of his/her assets
Founding capital can be in the form of services.	Potential conflict of interests between different types of partners
Some founders can invest only capital (unlimited partners) and some can invest only services (limited partners).	

**1.1.d. Limited partnership with share capital (k.d.d.)**

A limited partnership with share capital is a company where at least one shareholder is liable for the obligations of the company with all its assets (unlimited liability partner), while shareholders in founding capital have limited liability.

Like a share holding company (d.d.), a limited partnership with share capital (k.d.d.) also has mandatory bodies. These are: the board of directors, the assembly and optionally the board of shareholders. In cases stipulated by the law, the company must also have a supervisory board.

In case that the limited liability partner is a natural person, he/she may perform the function of a member of the management board.

The Assembly is composed of unlimited liability partners. Limited liability partners do not have the right to vote unless they participate in the share capital and at the same time they are not members of the Assembly.

Partners who consider founding this type of company should consult the relevant experts and then decide if this type of company is really the most suitable for them.

**1.1.e. European limited liability company (Societas Europea – S.E.)**

If entrepreneur have a business and want to expand to another EU country, he has an option to create a European Company. The European Company – also known as S.E. – is a type of public limited-liability company regulated under EU law.

There are several advantages to setting up a European Company:

- A simpler way to run business across more than one EU country: entrepreneur can reorganise activities under a single European brand name and run the business without setting up a network of subsidiaries.
- Greater mobility in the single market. For example, entrepreneur can transfer his registered office to another EU country without having to dissolve the company.
- Framework for involving staff employed in more than one country in running the business.

## **Annex 1.2: PROCEDURES AND COSTS OF ESTABLISHMENT OF OTHER BUSINESS ENTITIES**

### **1.2.a. Unlimited liability company (d.n.o.)**

An unlimited liability company is established by at least two natural or legal persons who intend to carry out an economic activity together.

On behalf of the founders, notary submits the following form to the relevant court (an application for entry in the court register):

[http://www.sodisce.si/mma\\_bin.php?id=2008112714454215&set=obrazci](http://www.sodisce.si/mma_bin.php?id=2008112714454215&set=obrazci)

In addition to the application the following documentation needs to be prepared:

- a contract in the form of a notarial record or a private document with signatures of all the partners certified by a notary,
- if the company is represented - in addition to its founders - by its manager, a decision on the appointment of the manager is required.

In the event that the investors authorize a notary to prepare all the needed documents, the following information should be provided:

- the name of the company,
- place of business operations and business address,
- identification data of the founders (personal name, personal identification number, address of permanent residence for natural persons, registration number and business address for legal persons, tax number for foreign natural and legal persons),
- identification data and type of representatives (shareholder, manager or procurator),
- manner of representation (individual or joint),
- the limits of representation powers,
- proposal of the main activity code.

On the basis of the decision by the registrar court, the Agency of the Republic of Slovenia for Public Legal Records and Related Services (AJPES) determines the entity's main activity code and registration number.

### **1.2.b. Share holding company (d.d.)**

A share holding company (d.d.) is a company the share capital of which is divided into shares. The share capital is at least € 25,000, and the lowest nominal amount of the share is € 1.

The company can be established by one or more natural or legal persons who adopt a statute in the form of a notarial record.

The relatively complex process is led by the notary.

The founders need to present to the notary the following identification data:

- Name and surname, personal identification number, address of permanent residence (in the case of a natural person),
- Company name, registration number, business address (in the case of legal entities),
- Tax number (for both natural and legal persons).

D.d. is a complex organizational form - it is advisable to obtain advice from legal experts prior to founding such a company and to verify all possible consequences, as well as to check whether this is the most appropriate form of company for founders.

### **1.2.c. Company with share capital (k.d.)**

A company with share capital (k.d.) can be established by at least two domestic or foreign natural or legal persons who decide to jointly carry out the selected business.

The company has to be established by a notary. The personal presence of the founders (natural persons or representatives of legal persons) is compulsory for the drawing up and signature of the documents at the notary.

The following information needs to be provided:

- name of the company,
- business address of the company,
- identification data of the founders (name, personal identification number and address of permanent residence for natural persons; company registration number and business address for legal persons; tax number for foreign natural and legal persons),
- definition of founders with full liability and those with limited liability,
- type and scope of responsibility for the obligations of the company (full liability founders are liable with all their assets, while limited liability founders only with company's assets),
- amount of the founding contribution of full liability partners,
- identification data and type of representatives (founder with limited liability, manager or procurator...),
- manner of representation (individual or joint),
- limits of representation,
- main business activity code proposal.

On the basis of these information, the notary draws up the following documents:

- a contract with certified signatures of all founders,
- in the event that the company is also represented by managers, a decision on the appointment of the managers is required.

The next step is done by the notary him-/herself. Based on the register court's decision about the registration of the company in the register, AJPES (the Agency of the Republic of Slovenia for Public Legal Records and Related Services) determines the entity's registration number and main business activity code.

Since the whole procedure is conducted by a notary, FDI advisor should recommend an experienced one to foreign investors.

### **1.2.d. Limited partnership with share capital (k.d.d.)**

At least five persons must participate in the establishment of a k.d.d. The founders are as follows:

- complementary (liable for k.d.d and it's management),
- shareholders (investing and acquiring shares).

The procedure of establishment is similar to the establishment of a share holding company (d.d.). At least five persons have to pass a founding Statute, including at least one complementary and at least four shareholders.

The Statute must contain everything contained in the Statute of a share holding company (d.d.)  
AND:

- name, surname, residence address or name and business address (in case of a legal person) of each complementary
- all cash or in-kind investments of the complementary must be indicated.

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