

Slovenia Corporate R&D Report 2015



Foreword



Welcome to the first edition of the Deloitte Research & Development (R&D) Survey in Slovenia, part of an annual R&D survey conducted by Deloitte across the countries of Central Europe. The survey is designed to gauge the overall situation in each country regarding investments in R&D, and brings to light the obstacles companies face in pursuing R&D activities. The survey is also an opportunity for companies to compare their R&D efforts with those of other companies in the region and for state institutions to gain insight into private sector views on the current and future support available to stimulate R&D and innovation.

Our mission was to provide an opportunity for companies to compare their R&D efforts with those of others in Slovenia as well as across Central Europe, as well as to provide insight to state bodies on the views on R&D investments and R&D incentives voiced by the private sector.

According to most recent data published by the national statistical office, Slovenia spent 935 million EUR on R&D activities in 2013, representing 2.59% of national GDP for that year. More than half of this investment into R&D - 597 million EUR (63.8%) - was funded by the private sector. R&D expenditure carried out individually by companies should be viewed as the most important driver of the national level of R&D investment. Judging by recent trends, Slovenia is relatively well on the way to meeting the EU's strategic goal of investing at least 3% of GDP in R&D and innovation by 2020. Our survey captures this positive outlook on the future R&D investment: asked about their expectations for R&D spending levels in the short and long term, Slovenian companies agreed that levels will be at least equal to 2014 if not higher.

I would like to thank all the companies who participated in this survey by dedicating their time and sharing their sentiment with us. I hope you will find the results insightful.

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Key findings:

- Most companies have an optimistic outlook on the level of R&D spending in the future: they do not expect to decrease their level of R&D expenditure, expecting it to be equal to or greater than in 2014 both in the short and long term.
- External factors with the most relevance to R&D spending outlooks are the availability of skilled and experienced researchers and their costs.
- The most pressing problems to enabling R&D spending include identifying the activities that meet R&D requirements and lack of tax clarity in the assessment of subsidies or tax deductions by tax or other authorities.
- The increase of the tax allowance to 100% qualifying R&D costs on average did not encourage the companies to change the level of R&D spending.

R&D local commentary - Slovenia

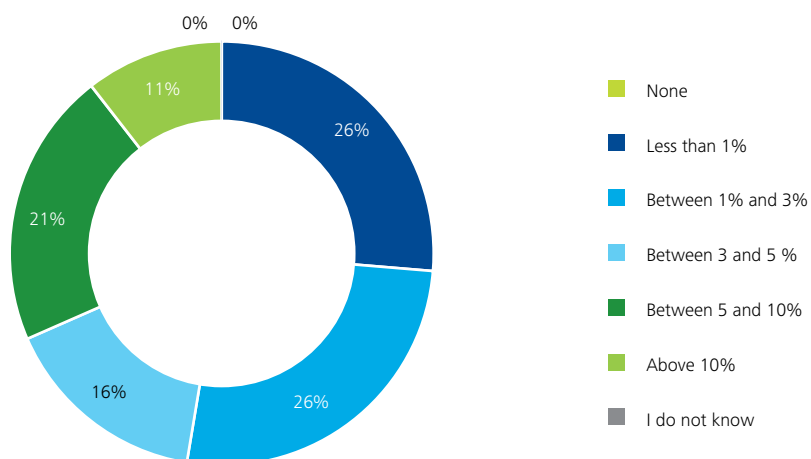
The Slovene Corporate Income Tax (CIT) Act provides an attractive R&D tax allowance to allow for the reduction of the tax base for up to 100% of R&D expenses incurred during the tax year, including: internal research and development (such as the costs of persons working on R&D projects, materials and services, and including purchase of equipment used solely for R&D) as well as the purchase of R&D services (outsourced R&D).

There are currently no local governmental grants available for R&D. Companies have the option of applying for EU funding as Slovenia is a member of the EU.

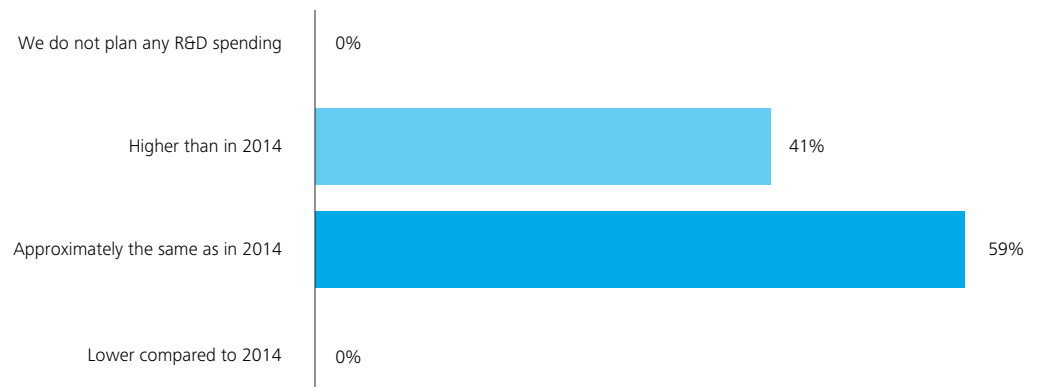
Proportion of turnover spent by Slovenian companies on R&D

All of the Slovenian companies taking part in the survey invest in R&D to some extent. More than half of respondents (53%) reported that last year's investment in R&D was 3% of turnover or less. Over a fifth (21%) of participants spent between 5-10% of turnover, and 11% of participants spent more than 10%. The proportion of Slovenian companies who spent above 10% on R&D is quite low compared with other Central European countries, where on average 25% of companies invested more than 10% of their turnover last year. Based on this average, the level of investment in R&D in Slovenia still has room to grow.

Graph 1: Percentage of companies' turnover spent on R&D in 2014

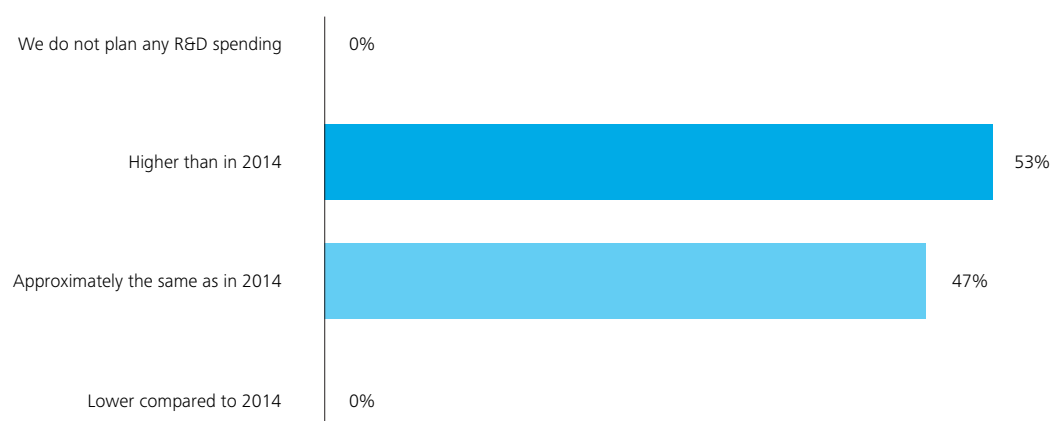


Graph 2: R&D spending plans in the coming 1-2 years



When asked about the expected level of R&D spending in the long term, more than half of participants (53%) answered that it will increase compared to 2014, and a little less than half (47%) answered it would remain the same. Respondents have a slightly more optimistic outlook on the level of spending in the long term. The same attitude can be observed in responses from other countries; however the inclination towards higher spending is much more positive.

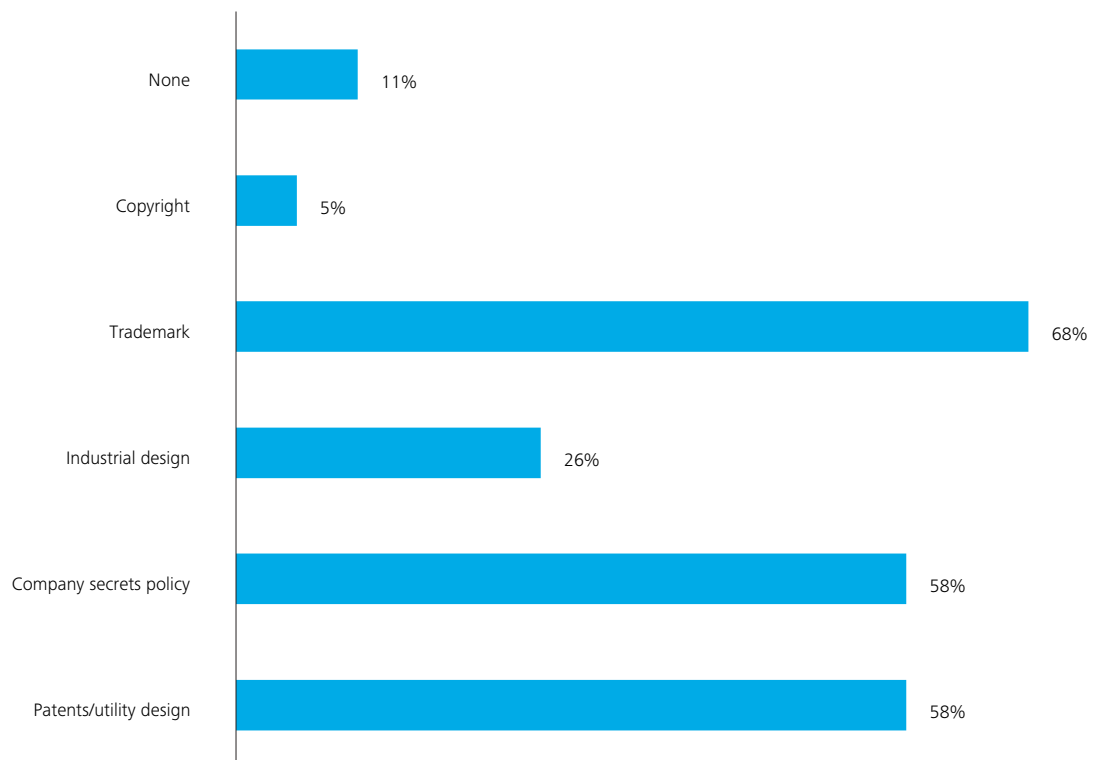
Graph 3: R&D spending plans in the coming 3-5 years



Protection of Intellectual Property in Slovenia

The most common way to protect Intellectual Property/ know-how in Slovenia is trademark (68%), followed by patents/utility design and company secret policy (both 58%). More than one answer was possible in this case. Copyright was reportedly used the least (5%), which is significantly lower compared to the participant's average response on copyright use (29%) in other EU countries.

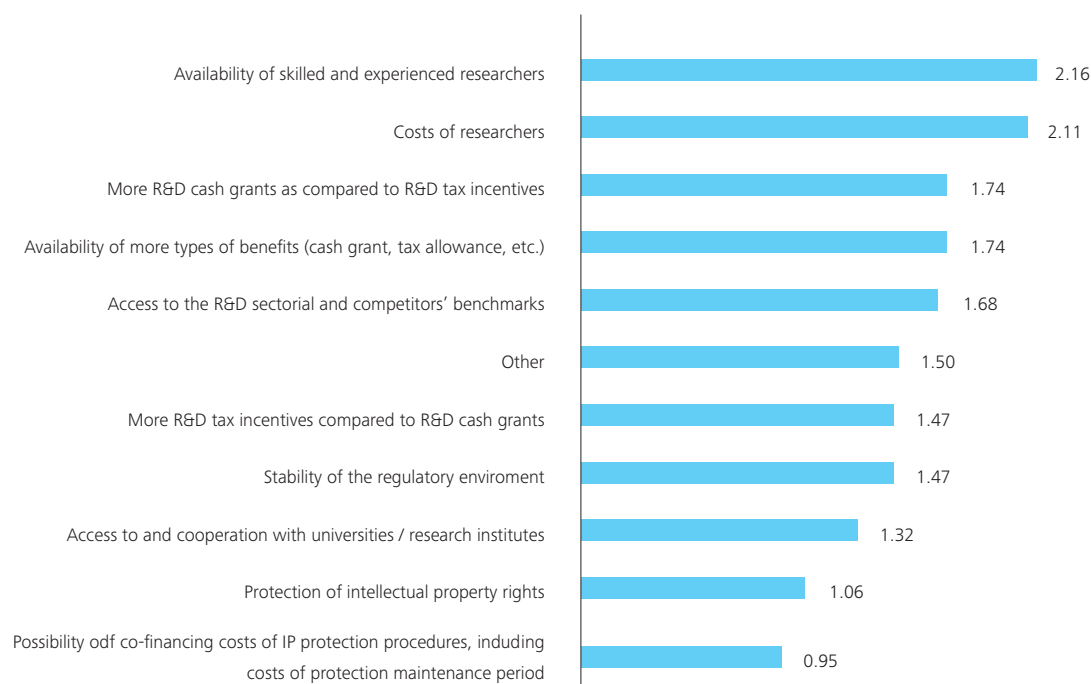
Graph 4: Protection of Intellectual Property / know-how in Slovenian companies



Which factors have the greatest impact on R&D spending?

When asked to identify the most important factors which would impact an increase on R&D spending, respondents selected the availability of skills and experience researchers and the cost of research. This indicates that one of the biggest challenges appears to be finding appropriately skilled staff and compensating them accordingly. The latter point may be linked to the costs of labor in Slovenia being relatively high compared to other countries in the Central European region.

Graph 5: External factors which would impact an increase of R&D spending



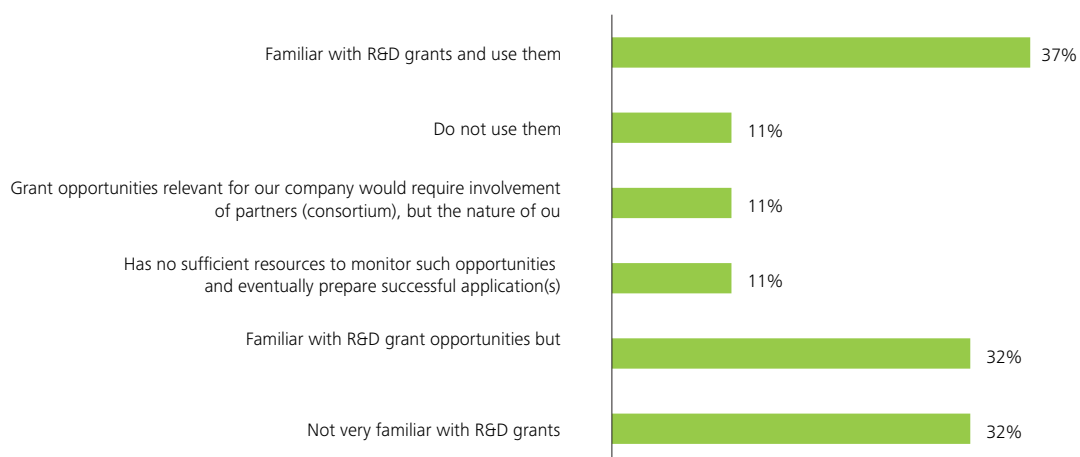
Incentives and grants in Slovenia

More than half of respondents (58%) reported that their company is fully familiar with R&D incentives and makes use them.

The use of R&D grants is less common than R&D tax incentives: only 37% of companies are familiar with R&D grants and make use of them. Nearly a third of

respondents (32%) are familiar with the grants but do not use them. The remaining 32% are not very familiar with R&D grants. When compared to the average of all Central European countries participating in the survey (21%), there is still room for improvement in Slovenia in terms of making companies aware of the R&D grants available.

Graph 7: With respect to the use of R&D grants, which statement(s) is/are relevant for your company?

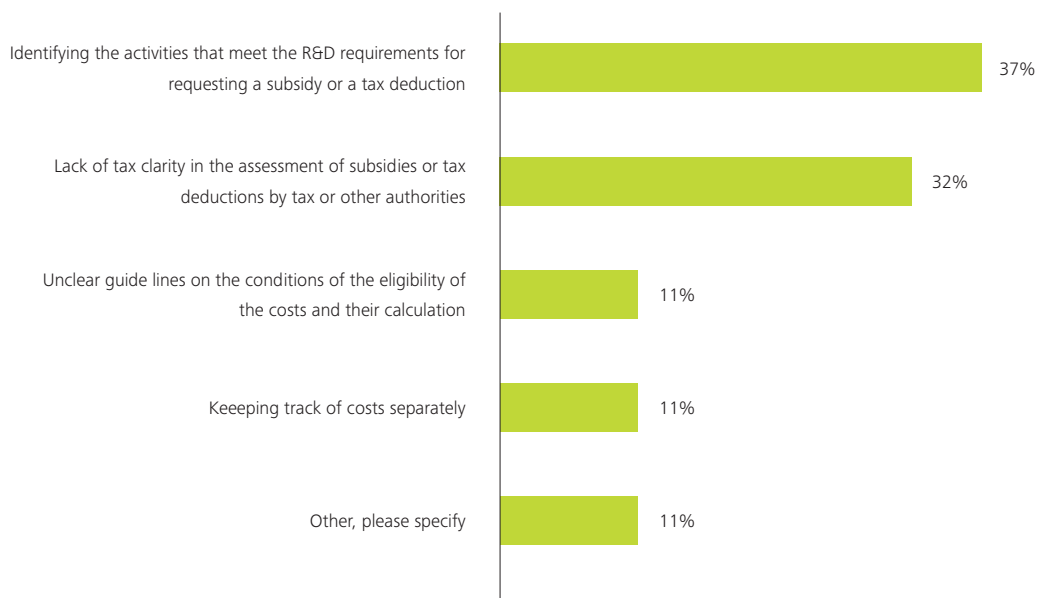


Assessment of current system of R&D support

The most serious problems in the current system of R&D support, according to respondents, are identifying those activities which meet the requirements for R&D (37%), closely followed by lack of tax clarity in the assessment of subsidies or tax deductions by tax or other authorities (32%). These choices are not surprising considering that the Slovenian regulation for claiming R&D benefits is not

very detailed and does not provide examples of the kind of activities which meet the requirements to be classified as R&D. There is also little publicly available guidance on how Slovenian authorities view specific R&D activities in practice. As a result, the level of uncertainty for a taxpaying entity when deciding whether or not to claim an R&D tax allowance is quite high.

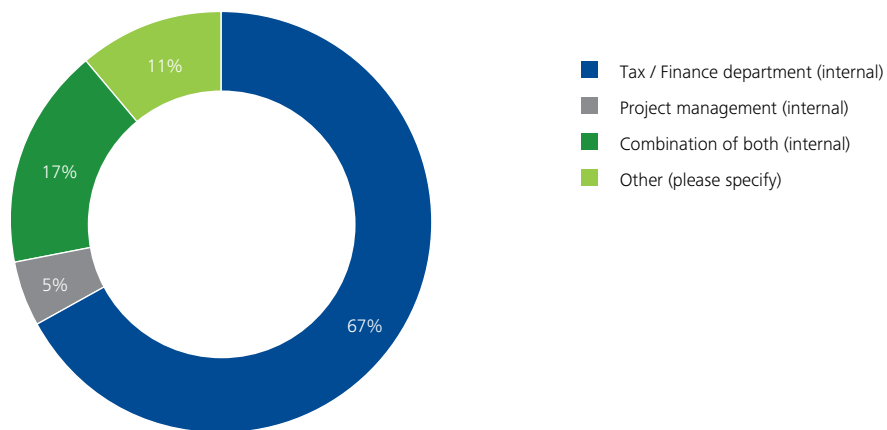
Graph 8: The most serious problem in the current system of R&D support (both in terms of subsidies and of R&D tax deductions)?



Locally specific questions – Slovenia

Participants were asked who prepares the R&D tax project documentation. The Slovenian regulation prescribes that a project plan needs to be prepared up-front by the taxpaying entity that decides to claim an R&D tax allowance. More than two thirds of participants (67%) reported that the required documentation is the responsibility of the tax department.

Graph 10: Who is responsible for preparation of the R&D tax project documentation in your firm?

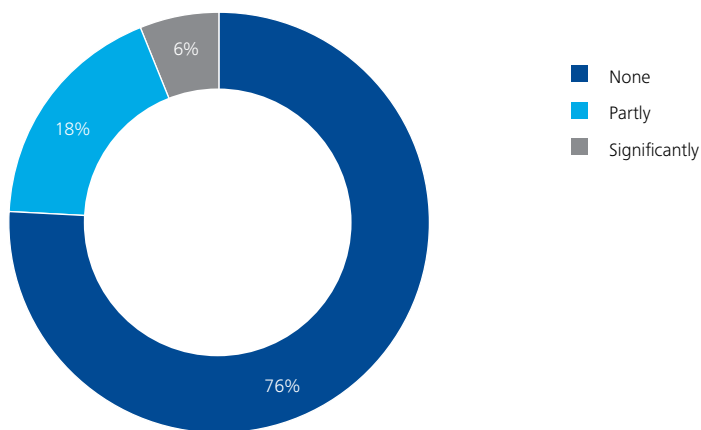


In 2012, parliament passed an amendment to the CIT Act which increased the R&D allowance from 40% to 100% of R&D costs. In the survey we asked companies whether the higher tax allowance motivated them to invest more into R&D activities.

More than three quarters of participants (76%) answered that this change did not motivate them to change their R&D expenditure plans, which means

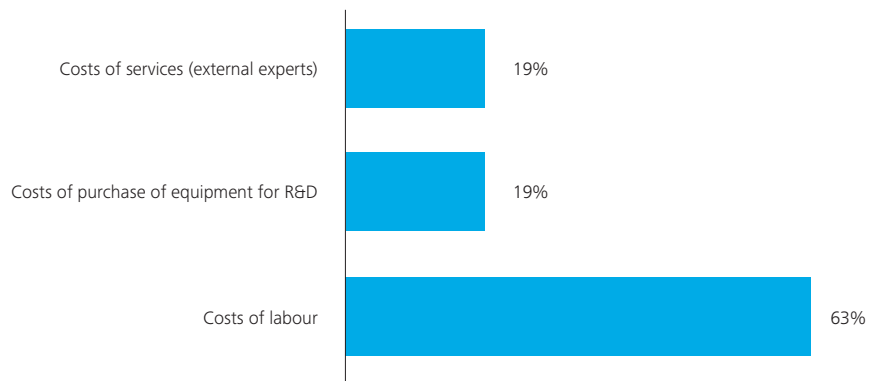
that companies view R&D costs as a necessary cost of business and have not reconsidered their level of R&D spending based on an increase in the available tax allowance. Nearly a fifth of respondents (18%) reconsidered their level of R&D spending based on the new tax allowance. The remaining 6% claimed that the increased tax allowance had a significant impact on their company's R&D spending.

Graph 11: Impact of the increase of the R&D allowance in 2012 to 100% eligible costs on the decision of the company to invest in R&D activities



On average most companies claim the cost of labor (63%), followed by costs of equipment (19%) and costs of external advisors (19%). The costs of labor generally represent the highest R&D-related cost and therefore it is not surprising that companies claim it as a tax allowance.

Graph 12: For which costs companies claim the R&D allowance



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