

Slovenia

Corporate R&D Report 2016

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Partner's Foreword

I am delighted to welcome you to the annual Deloitte Research & Development (R&D) Survey prepared by Deloitte Slovenia. This is our second year carrying out the study as part of an annual survey conducted by Deloitte across the countries of Central Europe. The survey should be regarded as 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.

Since this is our second year that Slovenia has been included in the study, we now also have the means to observe trends and changes in attitudes of the respondents.

According to most recent data published by the national statistical office, Slovenia spent 890.2 million EUR on R&D activities in 2014, representing 2.39% of national GDP for that year. This is approximately 45 million EUR less than in the previous year, or 0.2% less in relative terms to national GDP. 688.5 EUR was funded by the private sector representing 77% of all investment (an increase from 597 million EUR in the previous year). R&D expenditure carried out by companies continues to be the largest driver of R&D investment and by this most recent data has replaced part of the public R&D spending.

I am very grateful to 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 and useful.

Andreja Škofič Klanjšček

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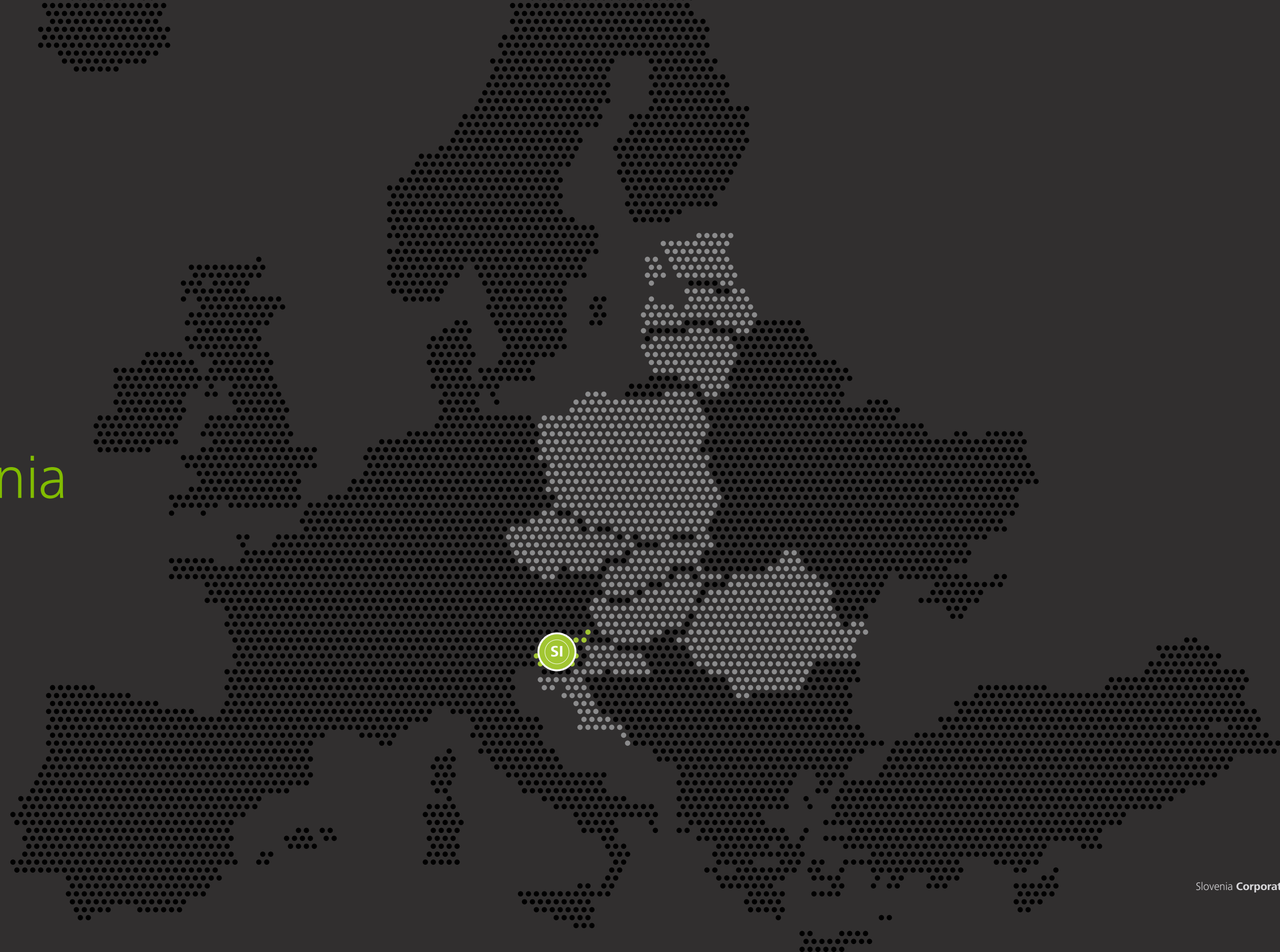
Andreja Škofič Klanjšček
Partner

Key findings

- The outlook on the level of R&D spending in the future is relatively stable: the respondents generally expect that the R&D expenditure in the short and long term view will be approximately the same as in 2015.
- External factors with the most relevance to R&D spending outlooks have been identified as the availability of more types of benefits (cash grant, tax allowance) and availability of skilled and experienced researchers.
- The most pressing problems enabling R&D spending continues to be the identifying the activities that meet R&D requirements.



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).

In November 2015, the Ministry of Finance proposed an amendment of Corporate Income Tax Act which would reduce the tax allowance for R&D: currently the tax base can be decreased by 100% of eligible expenditure in R&D, while according to the proposed amendment only 50% of the eligible expenditure in R&D would decrease the tax base. The proposal received a negative feedback in the public and was afterwards withdrawn.

Proportion of turnover spent by Slovenian companies on R&D

50% of the Slovenian companies taking part in the survey invest in R&D to some extent. Almost half of the companies investing in R&D (44%) spent between 5-10% of turnover, and 12% of the companies investing in R&D 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 21% 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.

Forecast of the R&D expenditure

When asked about the expected level of R&D spending in the short term, almost half of participants (44%) answered that it will stay approximately the same as in 2015. Only 6% of the respondents answered that the expenditure would increase in the next 1-2 years. This is a significantly different response compared to answers received from other Central European countries: on average 45% of respondents in Central Europe believe that the expenditure will increase in the short term (1-2 years).

When asked about the expected level of R&D spending in the long term, again most of the responses (39%) were that it will stay approximately the same as in 2015. 24% of the respondents answered that that the expenditure would increase in the next 3-5 years. Again the responses from Slovenian companies were slightly more pessimistic than those collected in other Central European countries: on average 57% of respondents in Central Europe believe that the expenditure will increase in the short term (3-5 years).

Protection of Intellectual Property in Slovenia

The most common way to protect Intellectual Property/know-how in Slovenia is trademark (33%) and patents/utility design (also 33%), followed by company secret policy (28%). Responses were similar to last year since also these three types of protection were selected as most common. More than one answer was possible in this case.

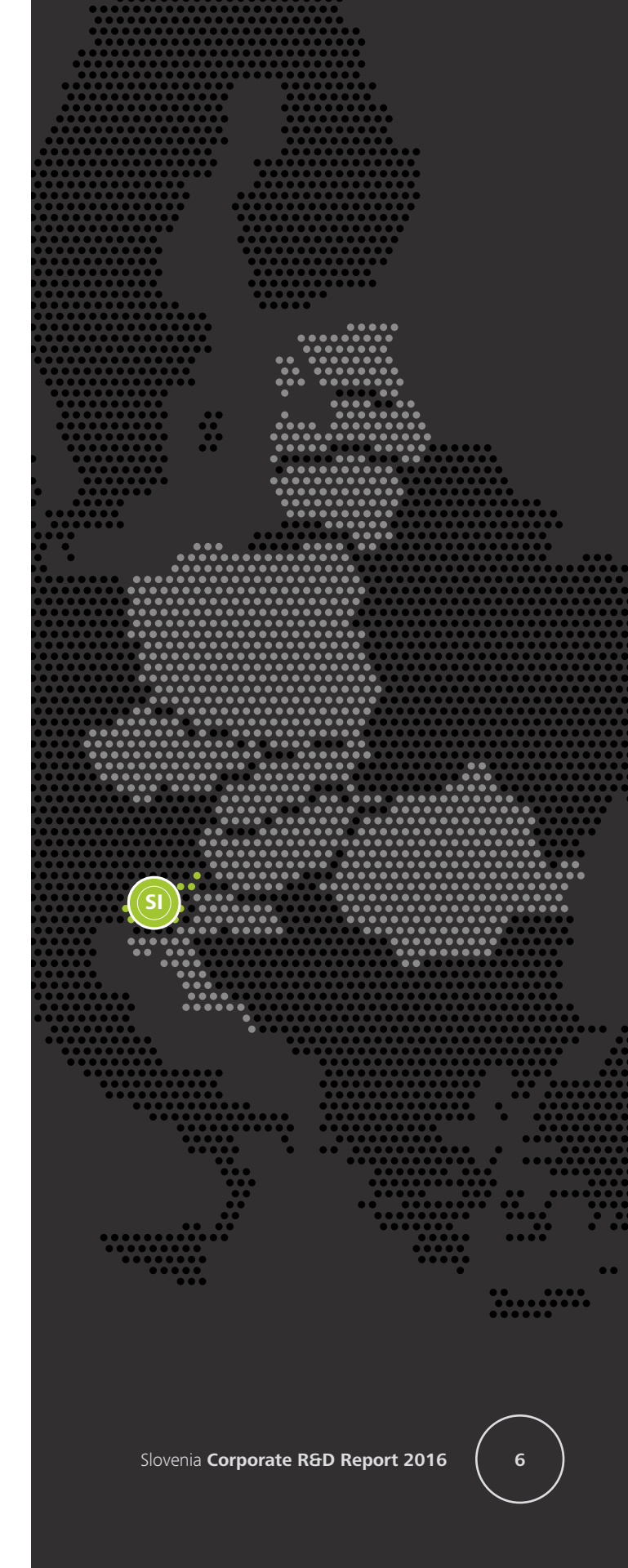
Similar as last year, copyright was reportedly used the least (11%), which is lower compared to the participant's average response on copyright use (26%) in other EU countries.

Factors which 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 more types of benefits (cash grant, tax allowance, etc.) and availability of skills and experience researchers. Stability and transparency of the regulatory environment/state administration and lower cost of research ranked high as well.

Incentives and grants in Slovenia

Almost half of the respondents (44%) reported that their company is fully familiar with R&D incentives and makes use them. This is higher than the Central European average (37%). Approximately the same share of respondents (44%) answered that their company is familiar with the R&D tax incentives but do not use them.



The use of R&D grants is less common than R&D tax incentives: only 28% of companies are familiar with R&D grants and make use of them. When compared to the average of all Central European countries participating in the survey (33%), there is still room for improvement in Slovenia in terms of making companies aware of the R&D grants available.

Assessment of current system of R&D support

The most serious problems in the current system of R&D support, according to respondents, is identifying those activities which meet the requirements for R&D (25%), followed by difficulties in keeping track of the costs (22%) and lack of tax clarity in the assessment of subsidies or tax deductions by tax or other authorities (11%). Other responses were also possible and respondents could also suggest their own responses, where respondents mentioned clarity in the changes and bureaucracy.

Cooperation with third parties when carrying out R&D projects

Approximately half of the respondents (50%) cooperate with third parties, which is less than Central European average (71%). When asked about the reasons for cooperation, a majority (89%) of the responses answered that it is needed for conducting research projects.

Locally specific questions – Slovenia

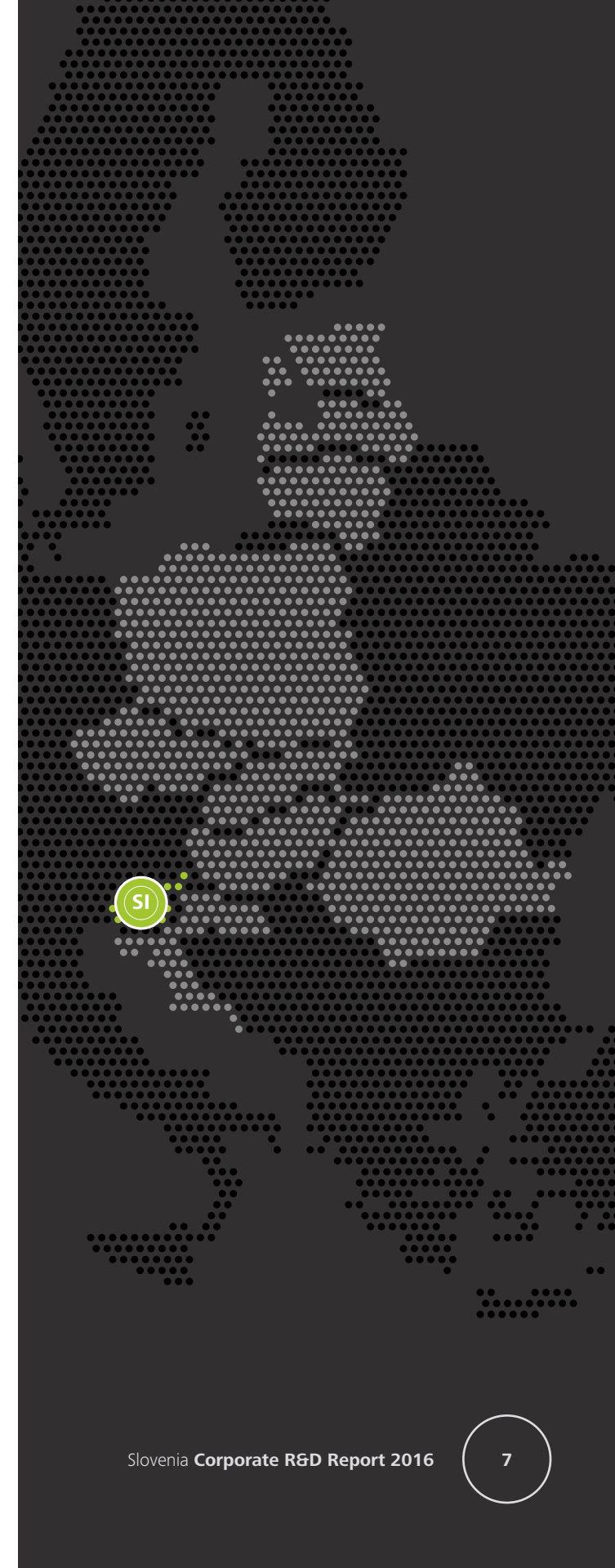
Specification of costs claimed as R&D allowance

Respondents were asked for which types of costs the R&D allowance as the reduction of tax base was claimed.

On average most companies claim the cost of materials and services (50%), the cost of labor (39%), costs of contracts with R&D centers (39%) and costs purchase of technical equipment (33%).

Current R&D allowance

Respondents were asked whether the current tax allowance is sufficient and/or appropriate. More than half (56%) of the respondents agreed that it is sufficient and appropriate. Out of the negative answers, most respondents view that the available deduction of the allowance should be higher (75% of respondents) and that the carry-forward period should be extended (50%). Currently the allowance can be carried forward for up to 5 tax periods.



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