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REPORT

From: General Secretariat of the Council
To: Delegations
Subject: Code of Conduct Group (Business Taxation)
- Report to the Council

STANDSTILL – Slovenia (SI017)

Preliminary Analysis: Special tax incentive for Employee Stock Ownership Scheme (SI017)

A. Background:

1. The Slovenian authorities notified this year the newly introduced Special tax incentive for Employee Stock Ownership Scheme (SI017). It concerns a preferential measure which provides for *lower than standard taxation in the country* for a specific type of taxpayer, i.e. certain cooperatives: exemption from income taxation at the level of the cooperative held by the employees of the contributions received from the operating company.

B. Relevant legal framework

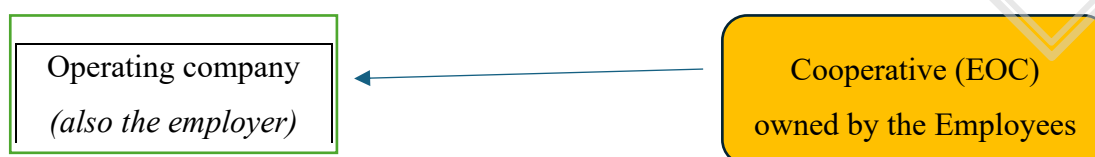
2. The legal provisions setting out the measure are the *Zakon o lastniški zadrugi delavcev (ZLZD) - “Employees’ Ownership Cooperative Act”*, published in Official Gazette of the Republic of Slovenia, No. 85/25 (hereinafter: EOCA).
3. The EOCA establishes a comprehensive legal framework, applicable as of 2026, for the creation (or conversion of existing businesses) and operation of *an employee ownership scheme* based on the voluntary decision of a business owner to transfer part or all of the company’s ownership, for consideration, into indirect ownership by employees.

C. Purpose of the measure

4. The measure introduces into the Slovenian legal system a form of indirect employee ownership through the instrument of an EOC (employees ownership cooperative). It enables the founders / shareholders to gradually transfer their business to employees through a special intermediary legal entity (special purpose vehicle): **the employee’ ownership cooperative (EOC)**.

Purpose of the cooperative

5. This EOC has a **special legal status**, granted by decision of the relevant ministry. **Its sole purpose** is the acquisition, management, and disposal of an equity investment in the operating company, as well as regulation of the rights of its members arising from the EOC's equity investment in the operating company. The employees do not own shares of the operating company directly; instead, the EOC owns the shares, and employees participate in ownership through membership into the EOC.



Employees of the Operating company



6. Such co-ownership model is meant to prevent fragmentation of ownership, keep ownership within the company and ensure long-term stability. It is particularly useful for succession planning in SMEs, maintaining local economic presence and rewarding long-term employees, becoming also long-term co-owners of the company where they work, without requiring the employees to pool personal savings or take on a personal debt to buy shares.
7. The basic structure involves four parties:
- i. the selling owner(s): individuals/entities owning shares in the operating company;
 - ii. the “operating company”¹: the underlying company in which the employees work²;

¹ Common legal forms: joint-stock company or limited liability company, European joint-stock company.

² The employees from controlled subsidiaries must be included as EOC members if EOC is established at the level of the controlling company.

- iii. the EOC: the cooperative that will hold the stake³. The EOC purchases shares from the owner financed through contributions from the operating company, (external) loans, or internal financing mechanisms. It is a special-purpose vehicle used to acquire shares often financed from the underlying company's pre-tax profits.
- iv. the employees as members of the cooperative.

Financing of the cooperative

8. The primary source of financing of the cooperative (and thus the acquisition of the shares) is the **contribution agreement** between the operating company (the employer) and the cooperative.
9. Through this mechanism, the employer (operating company) allocates part of its profit to the cooperative on a periodic basis (monthly, quarterly or annually)⁴, **as a compensation for the relevant employees' work**. The cooperative uses these funds to gradually pay the price to the shareholder for the transferred shares, and eventually for the employees to acquire a larger business share in the operating company.⁵
10. The Slovenian authorities informed that the introduction of the EOC in Slovenia is inspired by comparative legal models of employee co-ownership, such as ESOP/ESOT structures in the U.S., EOT models in the UK and Canada, and best practices supporting employee cooperatives in Spain and Italy.

³ In line with the EOCA legal framework, the EOC is *not* a normal operating business. It is a holding and distribution entity. Its cash-inflows typically come from the operating company contributions called ESOP contribution (often the main pathway for debt repayment, see above), and profit distributions tied to the stake it holds.

⁴ which is treated as a tax-deductible expense for the company up to the statutory limit.

⁵ The unpaid portion of the acquisition consideration is recorded on an internal transitional account, which represents the cooperative's outstanding obligation arising from the acquisition. As repayments are made through the contribution agreement or other permitted sources, the account decreases and the corresponding value becomes available for allocation to members.

D. Design of the measure

11. From a direct tax perspective, the measure is designed to provide tax advantages at several tiers, both regarding corporate income taxation (CIT) and personal income taxation (PIT).

a. Beneficiaries

12. At a first stage, the taxpayers benefitting from this measure are qualifying legal entities, namely *the operating company* and *the EOC*, but also *the shareholder*. At a later moment, the relevant employees also benefit from certain tax advantages.

b. Tax Advantage

13. The legal framework provides for: incentives for the *shareholder* (owner of the *operating company*), incentives aiming to lower the financing costs (incentives at the level of the *cooperative* and the *operating company*), and incentives for the benefit of the employees.

14. From a Code of Conduct perspective, only the preferential measures related to business taxation are relevant; yet, as the design presents a strong interlink and conditionality between the different tiers, such as between the existence of the *EOC* and the *employees*⁶, it is necessary to explain the overall picture on taxation.

b.1 Tax incentives in favour of the shareholder (seller) (PIT/CIT)

15. Upon sale of the operating company's shares to the cooperative, the shareholder (seller) earn(s) capital gains. If the shareholder (seller) is a natural person (taxpayer under the PIT) the tax base for capital gains is reduced by 20% for owners selling to an EOC cooperative. If the shareholder (seller) is a legal person (taxpayer under the CIT), the tax base for capital gains is reduced by 50% under conditions, for owners selling to an EOC cooperative, under the general rule of the CIT Act.

⁶ The ESO would not exist without the employees, and tax exemption of the relevant income is granted only to the extent it corresponds employees' accounts.

b.2 Tax incentives at “corporate” level (CIT) - aimed at lowering the cost of financing the buyout

16. At corporate level, a combination of tax concessions leads to a two-tier “tax neutrality”. When the *operating* company makes payments to the *EOC* under the contribution agreement, previously concluded to finance the acquisition of shares, the following tax treatment applies:
- i. *A tax deduction (for the expenses) at the level of the operating company in respect of the contributions made to the EOC.*

The payments made by the operating company to the EOC under the contribution agreement (between the operating company and the EOC) are treated as tax deductible expenses, under the EOCA scheme. The size of the deduction is linked to how much of the *operating company* the *EOC* acquires.

This results into a reduction of the taxable base for CIT purposes of the *operating company*, with a corresponding taxable income at a later stage at the employees’ level (see below iii.).

- ii. *A full tax exemption on such income (at the level of the EOC)*

Slovenia generally treats cooperatives as legal entities (engaged in commercial activities) subject to CIT, typically at a rate of 19% (increased to 22% between 2024–2028).

However, the income (contributions) received from the *operating company* under the contribution agreement by the *EOC* is tax-exempt (the *EOC* is eligible to reduce its tax base by 100% of such income) for CIT purposes. This rule allows the cooperative to repay its debts and accumulate the economic entitlement for the employees (see below iii). To this extent the EOC can be seen as a ‘flow through purpose vehicle’.

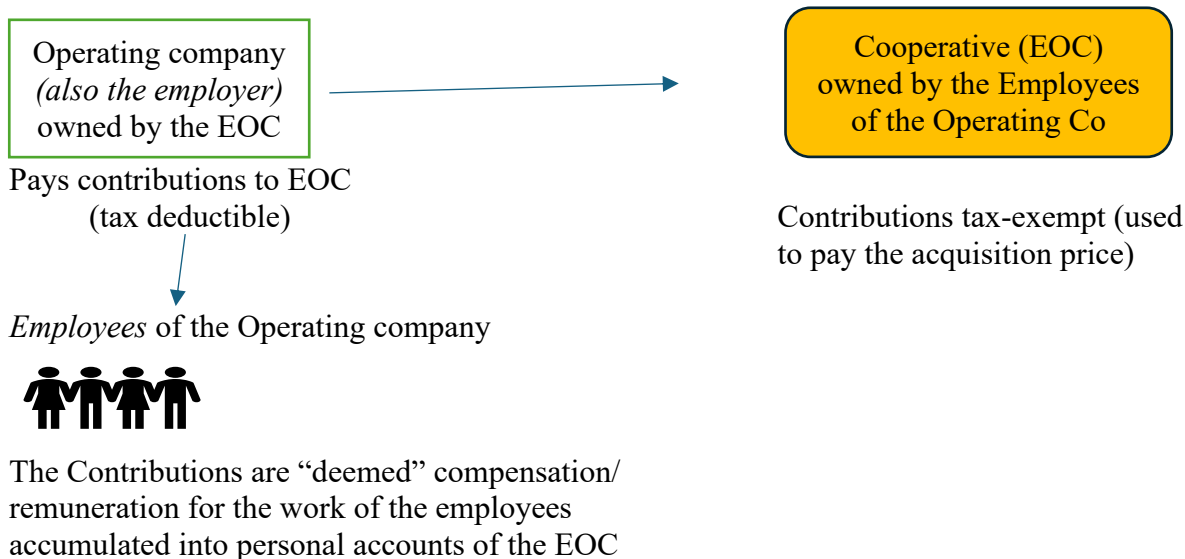
iii. Tax treatment at the level of the employees (PIT)

Individual capital accounts in the *EOC* are assigned to the employees. Under the *EOCA* legal framework, the payments from the *operating company* to the *EOC* are ‘allocated to such accounts’ and *considered compensation or remuneration* for the work performed by the employees of the *operating company*⁷.

When cash is actually paid out to employees from the assigned account, the system is designed to be similar to dividends and capital gains taxation, with favourable tax treatment for long lasting membership. In practice, when a member exits and their membership share is paid out, the *tax rate is the rate of the capital gain tax*; such tax rate reduces over time, with an exemption from capital gains tax if the mandatory share in the cooperative was held for more than 15 years.

If the employment relationship terminates or the cooperative dissolves, the member receives an *indexed value* of the share, providing for a fair exit treatment.

Cost Contribution Agreement



⁷ Simply crediting value to a member’s individual capital account is not treated as income and is not subject to personal income tax nor social security contributions (no tax on latent income/ gains).

The financial claims may be paid out on the go (during membership) or upon departure. Value is credited to these accounts proportionally to the cooperative’s repaid debt and the growth in the operating company’s value. When the company repays EUR 1 of the debt used to buy shares with its generated profit, EUR 1 of capital value is allocated to the members’ individual accounts.

c. Eligibility requirements and anti-abuse provisions

17. Membership in the *EOC* is contingent upon employment in the *operating company*. There is requirement for broad participation (minimum number of funding members (at least five) and a high threshold of eligible employees joining (usually at least 75%). Furthermore, there is one mandatory share per member and governance operates on a one-member/one-vote within the *EOC*. The aim of such conditions is to support a genuinely broad-based ownership transition where employee ownership is the *operating company's* core ownership trajectory, and not narrow participation schemes.
18. Membership into the cooperative is non-transferable and cannot be inherited. It terminates by law in cases of death, termination of employment relationship with the *operating company*, the dissolution of the *EOC* or voluntary withdrawal. When an employment relationship ends, the employee's membership in the *EOC* and their participation in ownership also cease. In this way, the *EOC* indirect ownership model ensures permanent ownership by current employees which cannot be transferred outside the company.
19. The legal framework also provides a safeguard for cases in which the *EOC* sells the acquired ownership stake it owns in the *operating company*. If the *EOC* partially or fully disposes of its equity investment, it must increase its tax base - proportionally to the sold share - by the amount of tax relief (tax-exempt income) received over the previous 10 years.
20. If the objective of the EOCA framework is no longer promoted by the scheme, the tax benefits received at the cooperative level may need to be returned through the tax claw-back provision.

d. Duration

21. The measure is in force as of 1 January 2026, for an indefinite period of time.

e. Budgetary Impact

22. Regarding the budgetary impact, as the scheme under the EOCA is rather new, no concrete empirical evidence is yet available and international experience cannot directly be applied to Slovenian conditions.

23. The Slovenian authorities have estimated that the number of companies whose owners and employees will decide to transfer ownership to employees under the proposed scheme will be as follows:

2025: 0 companies

2026: 10 companies

2027: 20 companies

2028: 50 companies.

24. Potential loss of tax revenue equal = average EBITDA × average ownership share transferred to the employee's ownership cooperative × effective CIT rate × number of *operating companies* whose *shareholders (owners)* will transfer shares to employees in accordance with the EOCA. Given the estimated number of companies and the fact that companies will first claim the tax relief in 2027 (based on tax returns for 2026), this means:

in 2025 (t0): 0 EUR

in 2026 (t+1): 0 EUR

in 2027 (t+2): 85,925 EUR

in 2028 (t+3): 171,850 EUR.

E. Preliminary remarks

25. It is worth summarising the different elements of the tax regime:

- If the owner of the *operating company* is q taxpayer under the PIT, he is taxed on capital gains when selling his shares to the *EOC* and the size of the tax base is reduced by 20% . If the owner of the *operating company* is a taxpayer under the CIT, it is taxed on capital gains under the general rules of CIT when selling its shares to the *EOC* and the size of the tax base is reduced by 50%.

- The *EOC* is treated as a special-purpose (investment) vehicle: the contributions made to the *EOC* by the *operating company* are tax exempt. They are also a deductible expense for the *operating company* because they are considered remuneration for the work of the employees, who are members of the *EOC*.
- Subsequently, ordinary taxation in the form of capital gains tax takes place at the level of the employees who are members of the *EOC* when cash is paid out to them from the assigned account. In exceptional cases, no taxation may occur, when an employee's membership in the cooperative exceeds 15 years. In such case, the income is exempt from capital gains tax.

F. Conclusion

26. The *EOC* measure grants preferential tax treatment to the financing structure put in place to acquire employees' ownership. While in a first instance, it results in the appearance of double non-taxation in the relation between the *operating company* and *EOC* (deduction with non-inclusion), there is in fact a (subsequent) "corresponding" taxation at the level of the employees' account (capital gains tax).
27. Given the nature of the regime as an employee's ownership incentive, the Commission Services do not see a significant risk for business re-location as a result of the preferential tax treatment granted at corporate level. The requirements (minimum employees participation) and safeguards (e.g. claw-back mechanism) set out for an *EOC* should actually limit the risk of re-location of companies.
28. This view is supported by the budgetary estimates provided by the Slovenian authorities. The overall revenue loss is estimated with 85,000 € in 2027 and 171,000 € in 2028.

29. Moreover, the Commission Services are of the view that the Group could follow a similar approach as it did in respect of investment funds. As per paragraph 28 of the Primarolo report⁸, the Group agreed to leave out, for the time being, the assessment of such collective investment vehicles and, since then, has not dealt with investment funds (see more recently the DK006 measure - Amendments to the rules on taxing investment vehicles⁹).
30. Given its design, the *EOC* presents certain similarities to investment funds. Similarly to these investment vehicles, there are several tiers of taxation: seller (previous owner), *operating company*, cooperative and the employees. While the preferential treatment (exemption from taxation) of an investment fund usually aims at avoiding double taxation at “corporate” level, the primary purpose in the case of *ECO* is to incentivize employee ownership, along with preventing double-taxation.
31. Insofar as the structure could exceptionally be used for succession/ transfer of family businesses and thus long-term tax planning, the narrowing of the base for computing capital gains tax at the level of the *shareholder*¹⁰ and the absence of tax liability in favour of employees after 15 years of membership are not of relevance to the Code of Conduct. This is because these aspects go beyond the remit of its current mandate, which is limited to business taxation.
32. Considering the aforementioned, it is the view of the Commission Services that the measure **does not need to be assessed** at this stage.

G. Follow-up

The Group agreed that the measure does not need to be assessed.

⁸ The Group agreed to leave out of account for the time being the assessment of collective investment vehicles and to refer the point of principle to the Taxation Policy Group.

⁹ 13151/20 FISC 222.

¹⁰ In scope of the Code of Conduct only to the extent that it is a legal entity.