Tax and Legal Services

Transfer Pricing

hot topic in the Slovak Republic

Basic principle

Prices used in transactions between a Slovak entity and a foreign related party should be set at arm's length (market rate). If this is not the case, and the Slovak company has a reduced corporate income tax base as a result, the tax authorities can adjust the transfer prices used to arm's-length level and increase the corporate income tax base of the Slovak company.

Who is subject to the transfer-pricing rules?

Under Slovak tax law, the arm's-length principle applies to transactions between a Slovak entity and its foreign related parties. Related parties are defined as personal relatives, entities that are economically or personally related, and entities with certain other relationships. In general, all group companies are treated as related parties.

Slovak transfer-pricing law

The Slovak transfer-pricing law is based on the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administration issued by the OECD.

Obligations for all companies

Under the current Slovak Income Tax Act, all Slovak companies have to support their transfer prices with sufficient documentation. During a tax inspection, the Slovak taxpayer must be able to prove that prices applied in transactions with its foreign related parties have been set at arm's length, in order to minimise the risk of transfer pricing adjustments and related penalties.

The tax authorities have an increasingly active group of tax inspectors specialized in TP matters, and detailed tax inspections focused on TP are becoming increasingly common. A number of companies have recently been charged significant additional tax following such inspections. Therefore it is essential that all Slovak companies have sufficient, detailed and up-to-date documentation and supporting information for their transfer prices.

News: prescribed form of transfer - pricing documentation for tax periods starting after 31 December 2008

Companies reporting under the IFRS Framework

In addition to the above-mentioned general need for supporting documentation in the event of a tax inspection, from 1 January 2009, Slovak taxpayers that have to prepare their financial statements for Slovak statutory purposes based on International Financial Reporting Standards (IFRS) must have specific, documentation on the transfer-pricing policies applied to material transactions with their foreign related parties.

The documentation must be provided to the tax authorities within 60 days of their request for it during a tax inspection. It must be in Slovak language, unless the tax authorities agree to accept the documentation in a different language. The content of this documentation is set out in a binding ruling issued by the Slovak Ministry of Finance.

The obligatory documentation consists of two basic parts, a master file and a local file. The master file must include information about the whole group of companies. The local file includes data that are specific for the Slovak company, such as:

- identification of its related parties;
- a functional analysis and an analysis of the business risks it faces;
- a list of intangible assets it owns and / or uses;
- a description of the group transfer-pricing policy; and
- cost-sharing agreements.

What exposure could you face?

If a Slovak company is not able to prove that the prices used in its transactions with foreign related parties are at arm's length, and this results in a decrease in the company's tax base, the tax authorities can increase the tax base by the difference between the actual price and the market (arm's-length) price. Any additional tax charge resulting from this would be payable, as well as a related penalty, calculated as the additional tax charge multiplied by three times the base interest rate of the European Central Bank (ECB).

Furthermore, for companies reporting under IFRS, the tax authorities can impose an additional penalty of up to EUR 33,194, if the compulsory TP documentation is not provided to them within the required deadline following their request.

Tax periods open for inspection

In general, a tax return is open for a tax inspection for six years following the year or tax period concerned. This period can be further extended to up to 11 years if the tax return in question was inspected during the first six year period.

Our transfer pricing services include:

- Preparation of transfer pricing documentation.
- Review and assessment of related-party transactions, and an assessment of related risks.
- A functional analysis for the Slovak company, and the selection of appropriate transfer-pricing methods
- Preparation of benchmarking studies to support profit margins and mark-ups.
- Assistance with obtaining approval from the tax authorities on transfer-pricing methods and the method for determining the corporate income tax base of a foreign company's Slovak permanent establishment.
- Assistance with structuring the flow of intra-group transactions to create an effective and tax efficient model.
- Assistance in negotiations with the tax authorities during transfer-pricing inspections.

Transfer-pricing services offered by PricewaterhouseCoopers

Our experienced team can design a transfer-pricing strategy that will both fit your business requirements and comply with the statutory requirements. We take the time to discuss your business with you and to understand your products and services, so that we can then provide you with specific transfer pricing advice and support. This will help you to set your transfer prices appropriately so as to minimize transfer-pricing risks within the context of market conditions and your business objectives.

In addition to preparing local transfer pricing documentation, in cooperation with our international network, we can assist you with preparing global transfer-pricing documentation based on your requirements, and in compliance with the OECD and other relevant principles.

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