Pocket Tax Book

Slovakia, 2004

PricewaterhouseCoopers

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2004

Slovakia

This booklet is based on taxation law and practice as at 31 January 2004 and includes proposed changes introduced in 2004 in the area of VAT that has not yet been approved by the Slovak Parliament. It is intended to provide a general guide only to the subject matter and is necessarily in a condensed form. It should not be regarded as a basis for ascertaining the liability to tax in specific circumstances. Professional advice should always be taken before acting on any information in the booklet.

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INDIVIDUALS

PERSONAL INCOME TAX

GENERAL PRINCIPLES

- Slovak tax residents pay tax on worldwide income, subject to restrictions under any applicable double tax treaty.
- Slovak tax non-residents are subject to tax on Slovak-source income only.
- The tax year is the calendar year.
- The applicable flat income tax rate is 19%.

TAX RESIDENCY

Slovak tax residents

- An individual is considered a Slovak tax resident if any of the following conditions apply:
  - The individual has permanent residence in the Slovak Republic (which is proved for Slovak nationals by a Slovak ID card and for expatriates by a permanent residence permit).
  - The individual is physically present in the Slovak Republic for 183 days or more (or any part of a day) in any calendar year, either continuously or in total.

Slovak tax non-residents

- All Slovak tax non-residents are only subject to Slovak income tax on their Slovak-source income. This includes the following types of income:
  - Income from work (dependent activity) carried out in the Slovak Republic.
  - Income from activities carried out in the Slovak Republic through a permanent establishment in Slovakia.
  - Income from an independent business, technical or consulting services, and similar activities provided in the Slovak Republic.
  - Income from interest, licence fees, or the rental of property located in the Slovak Republic.

- Income can be subject to Slovak tax regardless of whether or not it is remitted to the Slovak Republic.

DOUBLE TAX TREATY PROVISIONS

- Generally, most tax treaties between the Slovak Republic and other countries exclude an individual from Slovak tax on employment income if that person:
  - is not treated as a Slovak tax resident under the treaty;
  - is present in the Slovak Republic for less than 183 days in a calendar year (in any 12-month period);
  - the salary is not paid by a Slovak employer or on behalf of a Slovak employer; and
  - the employee's salary is not borne by a Slovak branch or Slovak permanent establishment of a foreign company.

Permanent establishment

- Under the Income Tax Act, a permanent establishment ("PE") is a permanent place for performance of activities through which foreign entities fully or partly conduct their business activity in the territory of the Slovak Republic. To be regarded as permanent, the activity must be executed methodically and repeatedly. In case of any one-off activity, the place is considered permanent if the activity is performed for more than six months in any 12-month period. The provisions of the applicable DTT should be considered to determine if a PE is created.
- The creation and subsequent registration of the PE for Slovak corporate income tax purposes would normally result in the tax authorities considering the PE to be the bearer of the salaries for foreign individuals. As a result, even an individual who stayed for less than 183 days in the Slovak Republic would become taxable from the first day of his assignment to a PE.

Economic employee/employer

- A PE is not created if foreign employees are seconded under an "economic employment" arrangement, under which a foreign entity "leases" its employee(s) to a Slovak entity in order for them to perform work under the Slovak entity's instructions. The Slovak entity is treated as the "economic employer" of a person legally employed by the foreign entity for personal income tax purposes.
- The Slovak company takes over responsibility for personal tax remittance. Individuals are liable to payroll withholding from the first day of their presence in the Slovak Republic, even if they are in the Slovak Republic for less than 183 days in a calendar year. No treaty protection is available for employment income of economic employees who are in the Slovak Republic for less than 183 days in a particular year.

GROSS INCOME

- For Slovak personal income tax purposes, income is divided into four categories.
  - Employment income
  - Entrepreneurial income and rental income
  - Capital income
  - Other income

Employment income

- Taxable remuneration from employment includes all remuneration, whether monetary or non-monetary, and in-kind benefits given to or provided for an employee. Statutory health insurance and social security contributions paid by the employee reduce taxable income, while contributions paid voluntarily are part of taxable income. Obligatory health insurance and social security contributions paid by the employer are not part of the employee's taxable income. Slovak-source income is not determined by where the payment is received.
- Employment income paid to an employee of a Slovak employer is generally taxed by monthly payroll tax withholding based on the income tax rate.

- Taxable income includes the following items:
  - **Gross salary** paid up to 31 January of the next tax period
  - **Director's fees** - paid to a statutory representative or member of the Board of Directors or Supervisory Board of a Slovak company
  - **Bonuses and premiums**
  - All **housing** or moving allowances
  - **In-kind benefits** paid for or provided by the employer (school fees, recreation, and nursery facilities)
  - **Company car and fuel costs:**
    - taxable benefit equal to 1% of the car's purchase price for each month of private use; and
    - fuel costs paid by the employer for an employee's private use are a taxable benefit for the employee and non-deductible for the employer.
- Reimbursement of **travel expenses** that exceed the statutory limits of SKK 5.40 for each kilometre travelled by the use of a personal car.
- **Meal allowances** for business trips over the statutory limits, which depend on the duration of the business trips. The statutory limits are as follows:

5-12 hours	SKK 80
12-18 hours	SKK 122
over 18 hours	SKK 188

  The daily meal allowance for business trips outside the Slovak Republic varies according to the country visited and is updated on a regular basis.
- **Share option schemes**
  - In general, individuals pay tax on the exercise of share options.
  - A positive difference between the acquisition price and the market price of a share is treated as employment income.
  - The employer either withholds the tax through payroll, or the employee includes this as taxable income in his annual tax return.
  - The sale of shares is taxable.
- **Contributions and insurance premiums** that employers pay to pension plans, health insurance plans and life insurance, where the employer has no statutory obligation to make contributions or pay premiums.
- Partial or total reimbursement (or direct payment) of the **employee's income tax** by the employer. For example, under "tax equalization" arrangements, such reimbursements or payments are taxable as employment income.

However, any money the employer deducts is considered part of the employee's gross income. The gross income is what is subject to Slovak tax.

Entrepreneurial income and rental income

Entrepreneurial income

- Income from small businesses and other entrepreneurial activities, profit shares or allocations from general partnerships, and income from independent profit-making activities, such as income for doctors, lawyers, consultants, or other professionals.
- Taxable profits are calculated in the same way as for corporate income tax. However, entrepreneurs who are not VAT payers can either deduct expenses actually incurred or take a flat 25% deduction from the tax base (60% deduction for some listed entrepreneurial activities).
- Entrepreneurs must file annual income tax returns and meet the filing and payment deadline. They must also pay tax advances, depending on their previous tax liability.
- Entrepreneurs are subject to Slovak social security and health insurance contributions.
- Entrepreneurs, independent consultants, and other self-employed individuals who are not Slovak tax residents will be taxed in the Slovak Republic to the extent their income derives from a "fixed base" in the Slovak Republic or from services provided in the Slovak Republic. All such income is regarded as being from Slovak sources.

Rental income

- Income from leasing or renting out real estate or movable property.
- Taxable income is the difference between the rental income and related, incurred tax-deductible expenses. Deductions may be taken for depreciation costs (normally over a period of 20 years for buildings), interest and finance charges, real estate taxes, repairs, maintenance and certain other types of rental expenses.
- Alternatively, taxpayers who are not VAT payers can make a general expense claim of up to 25 percent of the rental income.

Capital income

- Interest and other yields from securities, interests, winnings and savings on deposit accounts that are not designated for business activities, yields from supplementary pension insurance and old-age pension savings, yields from life insurance after passing certain age. All these are taxable income subject to withholding tax, unless received from abroad when treated as a separate tax base.
- Yields from bills of exchange, interests and other income from loans are treated as a separate tax base with non-deductible expenses available.
- If the withholding tax is treated as an advance for the total tax liability, then this income is treated as a separate tax base.
- The withholding tax may be reduced under double taxation treaties. These reduced rates are applicable only if the individual remains a tax resident in the other country and is not treated as a Slovak tax resident under the relevant tax treaty.

Dividend income

- Dividend income from the Slovak source distributed from 2004 or later profits is not subject to Slovak withholding or income tax.

Capital gain

- There is no separate capital gains tax in Slovak Republic.
- Gains on property are exempt if the individual has owned the property for non-business purposes for longer than a specified time limit:

• Flats	2 years
• Other real estate	5 years
• Any real estate previously used for business purposes	5 years

Other income

- Occasional income
- Income from the sale and transfer of real estate
- The transfer of securities - A profit from the sale of securities by individuals is exempt from Slovak taxation if the securities were acquired before 1 January 2004 and the holding period exceeds three years (five years for shares in a cooperative, a general partnership, a limited partnership and a limited liability company).
- Income from the sale of participation in a business
- Prizes from advertising competitions and lottery prizes

Individuals who are not Slovak tax residents must pay Slovak income tax on any gains that are not exempted if the shares or securities are in, or issued by, a Slovak legal entity, or if the real estate or moveable assets are located in the Slovak Republic.

INDIVIDUAL TAX BASE, TAX LOSSES

- Individual income from different sources, such as employment income, entrepreneurial and rental income, capital and other income, forms an individual's overall tax base if not subject to withholding tax.
- Other income not mentioned above is also generally subject to personal income tax (unless specifically exempted), and there are restrictions on transferring losses across different categories of income.
- Losses arising from business or rental property are offset against other sources of income, except employment income. If an overall loss is realized, it can be carried forward and offset against taxable income arising in the following five years.
- Generally, with the exception of employment income, necessary expenses incurred to generate, ensure and maintain taxable income are deductible from that income.
- For individuals earning income from dependent activities, obligatory contributions to Slovak social, employment, health and accident insurance plans (or similar obligatory contributions paid abroad) may be deducted.

PERSONAL ALLOWANCES

- Generally, a personal allowance of 19.2 times the minimum subsistence amount announced on 1 January each year (for 2004, SKK 80,832) is available to all individuals.
- A dependent spouse allowance of 19.2 times the minimum subsistence amount is available only to individuals with permanent residence in Slovakia.
- Contributions to an additional pension insurance scheme, up to a maximum of SKK 24,000 per year, are tax deductible.

TAX BONUS

- A tax bonus of SKK 4,800 for each dependent child living in an individual's household is available to individuals with a taxable income of six times the minimum wage. The tax bonus decreases the tax liability. It is also available only to individuals with permanent residence in Slovakia.

TAX RATE

- There is a flat tax rate of 19% applicable for all individuals.

PAYROLL WITHHOLDING

- An employer must withhold income tax from employment income when he makes salary payments, usually on a monthly basis, to:
  - all employees of a Slovak company, except for employees who were seconded abroad and will be taxed abroad;
  - all employees of a Slovak branch or permanent establishment of a foreign company, including expatriates employed by the head office and assigned to work at the branch; or
  - economic employees.
- The employer withholds the tax from the employee's salary and must pay this tax to the local Tax Office (the Tax Office at which the entity is registered) within five days from the date the salary was paid to the employee. The employer must keep payroll records and is responsible for tax registration and the correct payment of tax. Furthermore, if the employee only earns income from one employer throughout the year, this employer must (if requested) produce an annual tax reconciliation on the employee's behalf. In practice, this reconciliation statement functions as the employee's tax return.

TAX REGISTRATION

- All foreigners assigned to work in Slovakia must register for income tax purposes within 30 days.

TAX RETURNS

- Generally, everyone who is subject to Slovak personal income tax must submit a personal income tax return, unless his only income is exempt or his salary is taxed through a Slovak payroll and his employer arranges the annual tax reconciliation.
- The filing and payment deadline is March 31 of the year after that in which the income is earned.
- Husbands and wives must file separate returns.
- The tax period is the calendar year.
- A taxpayer that has taxable income other than income from employment activity or income that is subject to withholding tax must file a tax return, if he reported a tax loss; or if he did not report tax loss, but his taxable income was higher than half of the applicable personal tax allowance (SKK 40,416 for 2004).

TAX ADVANCES

- Generally, taxes are payable in advance, based on the individual's previous Slovak tax liability as shown in the last annual tax return filed. However, for the year in which an expatriate arrives in the Slovak Republic, there will usually be no previous tax liability. Therefore, the tax payment should be negotiated with the Tax Office based on the expected tax liability.

- If the individual does not have any employment income, advance payments must be made on the following basis, unless the Tax Office directs otherwise:
  - If the previous year's tax liability exceeds SKK 500,000, one-twelfth of the prior year's liability (rounded up to the nearest hundred in SKK) must be paid monthly, usually by the last day of each month.
  - If the previous liability is between SKK 20,000 and SKK 500,000, one-quarter of the prior year's liability (rounded up to the nearest hundred in SKK) must be paid on March 31, June 30, September 30, and December 31.
  - No advance payments are required where the previous year's tax liability was below SKK 20,000.
- If employment income taxed through a Slovak payroll makes up over 50% of the individual's taxable income, these advances are not payable. If the individual has some employment income taxed through a Slovak payroll, but this is 50% or less of his total income taxable in Slovakia, half of the amounts calculated in this way will be payable as advances.

PENALTIES

- Harsh penalties can be imposed for failing to file a tax return or pay taxes, filing a late return or paying taxes late, or failing to declare significant amounts or sources of income. The penalties are identical to those described for corporations.

HEALTH AND SOCIAL SECURITY

HEALTH INSURANCE

- Contributions are obligatory for individuals who:
  - have permanent residence in the Slovak Republic;
  - do not have permanent residence in the Slovak Republic, but have an employment contract with the Slovak employer; or
  - do not have permanent residence in the Slovak Republic, but are carrying out entrepreneurial activity in the Slovak Republic.
- The following individuals are exempt from paying health contributions:
  - those with permanent residence in the Slovak Republic, but who have an employment contract with the foreign entity, and are also insured in that country; and
  - those individuals staying abroad for more than six months and who are insured there.
- The computation base for calculating contributions is the taxable income received, plus certain benefits provided by the employer. The monthly base for calculating the health insurance contribution cannot be lower than SKK 3,000. The maximum monthly base for the health insurance is SKK 32,000.
- Both the employee and the employer contribute to the health insurance system. The employee's contribution is 4% of the computation base, while the employer's contribution is 10% of the computation base. In the case of an entrepreneur, he pays both the employee's and the employer's contribution – 14% of the computation base.
- The health insurance contributions cover the healthcare expenses of the individual paying health insurance contributions.
- Individuals can choose the company to which they will pay health insurance contributions.

SOCIAL SECURITY

- The reformed Slovak pension insurance system consists of three pillars. The first and second pillars are compulsory, while the third one is voluntary.

The first pillar's principles

- Generally, the following individuals must be insured for sickness insurance, old-age and invalidity insurance, and unemployment insurance:
  - an employee who carries out his employment activity for a Slovak employer in the Slovak Republic or abroad during a period determined by the Slovak employer, if not stated otherwise in the particular social security treaty; and
  - an individual carrying out entrepreneurial activity, if his income is above a specified limit.
- An individual over 16 years old who has permanent residence in the Slovak Republic, the right to permanent residence or temporary residence, can be insured on a voluntary basis.
- Insurance contributions for the particular insurance categories are calculated as a percentage of the "computation base".
- In general, the computation base for all categories of social insurance is an individual's taxable income, except for some benefits. The minimum monthly salary (SKK 6,080 as of 1 January 2004), is the minimum for the computation base, while the maximum is three times the average monthly salary, for the following categories:
  - retirement insurance;
  - unemployment insurance; and
  - reserve fund contributions.

The minimum monthly salary is the minimum, while the maximum is 1.5 times the average monthly salary, for the following categories:
  - sickness; and
  - guaranteed insurance contributions.
- The average monthly salary that will apply for the period from 1 January 2004 to 30 June 2004 is SKK 13,511, which is the 2002 average monthly salary. From 1 July 2004, the 2003 average monthly salary will apply. This amount should be announced by 30 April 2004.

Employee		
	Rate	Maximum contribution by 30 June 2004 (SKK)
Sickness	1.4%	284
Retirement	4%	1,621
Permanent disability	3%	1,216
Unemployment	1%	405
Health	4%	1,280
Guaranteed fund	-	-
Reserve fund	-	-
Total	**13.4%**	**4,806**

- Retirement pension can be decreased proportionally by 0.5% according to the number of children the individual has.

Employer		
	Rate	Maximum contribution by 30 June 2004 (SKK)
Sickness	1.4%	284
Retirement /	16%	6,485
Permanent disability	3%	1,216
Unemployment	1%	405
Health	10%	3,200
Guaranteed fund	0.25%	51
Reserve fund	2.75%	1,115
Total	**34.4%**	**12,756**

- In addition to these contributions, under the new law, the employer must make injury insurance contributions of between 0.3% and 2.1% of employee remuneration. The percentage depends on the employer's safety classification.
- An individual paying contributions to the social insurance company can claim the following allowances: sickness, nursing, maternity, old-age pension, invalidity pension, surviving partner pension, injury compensations, unemployment allowance, and others.

The second pillar's principles

- The system of old-age pension savings should, in the future, be financed from contributions paid to personal retirement accounts.
- Individuals not making retirement insurance contributions before 1 January 2005 will begin to contribute to the second pillar.
- Other individuals should be able to choose whether they want to participate in the second retirement insurance pillar. However, unless they save for at least 17 years under this pillar they will only be entitled to the normal old-age pension benefits under the Act on Social Insurance.
- If the individual chooses to enter the second retirement insurance pillar, the employer's contribution to the first pillar will decrease from 16% to 5% of the computation base. Nine percent of the difference will be the employer's contribution to the personal retirement account, while the remaining 2% will be added to the employer's reserve fund contribution.
- The computation base for contributions to personal retirement accounts is the same as that set out in the Act on Social Insurance for old-age insurance (see the section above).
- Under the old-age pension savings system, each citizen should be able to choose a management asset company that will manage his or her personal pension account.
- The management asset companies should create three pension funds – growth, balanced and conservative funds – that should differ in their rate of return and risk. Each employee should be able to select a particular fund.
- Regular, early, and surviving partner pensions should be paid from old-age retirement savings.

TAX-EFFICIENT INVESTMENTS FOR INDIVIDUALS

STATE-SUBSIDISED SUPPLEMENTARY PENSION INSURANCE

- In addition to the compulsory pension scheme, individuals and employees can invest in a supplementary pension insurance scheme.
- The benefits will be paid to participants when they reach general retirement age at 62 years old, for both men and women, and are subject to the Slovak withholding tax rate of 19%.
- Contributions can be made by the individual and/or by his Slovak employer.
- Contributions made by the Slovak employer on behalf of the employee are the employer's tax-deductible expenses for corporate income tax purposes, up to 3% (6%) of insured employees' gross salaries.

HOUSING SAVINGS ACCOUNT

- These are primarily an efficient form of investment for Slovak individuals that are designed to finance housing acquisitions.
- The participant first deposits his financial contribution. After a certain period of time and meeting specific conditions (such as a minimum amount of deposited money), a loan can be provided to finance housing. The interest rate on this type of loan was 3% to 6% annually in 2003. The loan is optional and the participants can decide not to take it. In that case, they can withdraw the deposited money and use it for other purposes. Other kinds of loans, such as bridging loans, can also be granted to participants of the housing savings scheme, according to their needs and the contract conditions.
- A Slovak individual participating in a housing savings plan is entitled to a state subsidy of 15% of the yearly savings, with an annual maximum of SKK 1,500 as of 2004. The interest rate on deposits was 2% to 3% annually in 2003.
- State contributions to housing savings are fully exempt from personal income tax.

COMPANIES

CORPORATE INCOME TAX

- As an OECD-member state, the Slovak Republic's system of corporate taxation generally follows OECD guidelines and principles.

ENTITIES SUBJECT TO CORPORATE INCOME TAX

- A company is treated as a Slovak tax resident if it is incorporated or has its place of management in the Slovak Republic. Resident companies are subject to Slovak tax on their worldwide income, subject to double taxation treaty relief. The provisions of double taxation treaties may take precedence over the Income Taxes Act.
- Permanent establishments of foreign companies are generally taxed on Slovak-source income only.
- There are no provisions for group taxation. This means consolidated returns cannot be filed, and each group company subject to Slovak taxation must submit a separate tax return.

TAX RATE

- The tax rate is 19%.

TAX BASE

- The tax base is generally the difference between income and expenses, as adjusted for tax purposes. The matching principle must be followed.
- The difference in prices between two foreign related parties compared to those between independent parties is also part of the tax base.
- Capital gains from the disposal of assets are included in the corporate income tax base.
- Branches and permanent establishments (see page 23) may agree with the tax authority to use an alternative method of calculating their Slovak tax liability.

NOT SUBJECT TO TAX

- Dividends paid out of profits earned on or after 1 January 2004.
- Liquidation surplus and settlement amounts paid to shareholders, to which the shareholders are entitled on or after 1 January 2004.
- Income received by inheritance or donation.
- Income from acquiring new shares due to an increase in share capital from retained profits or mergers and de-mergers within Slovakia or the European Union.

TAX-DEDUCTIBLE ITEMS

Generally, tax-deductible items are those that the taxpayer incurs to generate, ensure and maintain its taxable income. Documentation, such as receipts and invoices, must be kept to support their tax deductibility. For tax audit purposes, a Slovak translation may be requested. Tax-deductible items include the following:

- Salary costs.
- Costs for business trips, up to a certain amount.
- Fuel costs, up to a certain amount.
- Advertising costs incurred for the "presentation" of the business activities of a taxpayer, his goods, services, immovables, business name, trademark, and the brand name of products or other rights and liabilities related to the activity the taxpayer carried out to generate income.
- Promotional products not exceeding SKK 500 for each item if they bear either the company's business name or trademark.
- Interest, including interest from foreign related party loans, is fully tax deductible.
- Royalties and service fees.
- The tax net book value of assets or liquidated assets (it is not necessary to add back a tax loss on the sale of assets).
- Differences arising from the revaluation of securities and shares are not taken into account when comparing the net book value of the securities to the sales proceeds upon the sale of the securities.
- The creation of the reserves, including reserves for goods and services provided in the current year, where the invoice has not been issued, and reserves for costs in respect of unused holiday, insurance and contributions, reserves for audit services and for preparing the tax return for the current year, and others.
- A written-off receivable, up to the nominal value (without interest), is tax deductible. This receivable must meet the criteria for creating a 100% provision in accordance with the Slovak Income Tax Act.
- A bad-debt provision in accordance with the Slovak Income Tax Act.
- Additional retirement contributions the employer pays for his employees, up to 3% (6% in some special cases) of the employees' gross salaries, based on the additional pension insurance law.
- Tax depreciation or leasing payments on personal cars, regardless of the acquisition value.
- The fee in case of financial leasing is tax deductible if the leasing period is at least 60% of depreciation period of the leased asset.
- The value of an assigned receivable, up to the income from its assignment. If the assigned receivable meets the criteria for creating a provision against a debtor in bankruptcy proceedings, or if the receivable meets the criteria for a 100% provision, the costs are tax deductible up to the nominal value of the receivable (without interest).
- The depreciation of assets that are not directly used by the taxpayer ("the owner"), but are used by another party. Assets should serve to ensure the taxable income of both the owner and the other taxpayer.
- A contribution to several associations of corporate entities for membership in those associations – up to 0.35% of gross wages.
- Reserves of insurance companies for non-life insurance created under the Act on Insurance Companies are tax deductible in full.
- Bad-debt provisions from insurance are tax deductible up to 100% of the receivables' value, if the policy is cancelled.

Cash basis costs/revenues

- Contractual penalties, fees and interest on late payments are tax deductible or taxable on a payment or receipt basis.
- Rental fees and commissions paid to individuals are tax deductible on a cash basis.

TAX NON-DEDUCTIBLE ITEMS

In certain cases, the tax law specifies, limits, or disallows expenses for tax purposes. Generally, these are expenses not related to taxable income, even if these expenses were accounted for. The following expenses are tax non-deductible:

- Dividends, including those paid to statutory representatives.
- Expenses above statutory limits (such as travel expenses).
- Representational expenses and promotional products with a value over SKK 500.
- Gifts and donations.
- Entertainment expenses.
- Expenses related to non-taxable income.
- Accounting provisions and accounting reserves.
- Non-contractual fines and penalties.
- Creation of a reserve fund and other funds, excluding the obligatory social fund.
- Creation of reserves for bank receivables and guarantees.
- Corporate income tax and taxes paid on behalf of another taxpayer.
- Losses realised on the sale of land.

DONATIONS

- The taxpayer can donate 2% of his tax to a qualifying company of his choice by reporting the name of the company to the relevant tax office as of the 2004 tax period.

INTEREST

- Interest, including interest from foreign related party loans, is fully tax deductible.
- For corporate tax purposes, the interest charged between related parties must be at arm's length (the prices between related parties must be at fair market value).
- Interest on the acquisition of fixed assets cannot be capitalised.

RELATED PARTY TRANSACTIONS

- Prices between foreign related parties must be set at fair market value (the arm's-length principle) for corporate tax purposes.
- A related party (an individual or an entity) is a relative, a party economically or personally related, or a party otherwise connected (this relationship arises if the parties established a business connection only for the purpose of decreasing the tax base).
- An economic or personal relationship means participation in the equity, control, or management of the other party, or a relationship between parties that are under the control or management of one party or in which the other party has a direct or indirect stake.
- Participation in equity or control means a 25% direct, indirect, or indirectly derived participation in share capital or voting rights.
- Participation in management means a membership-like relationship of the members of the statutory bodies or supervisory bodies of the entities.
- The tax authorities can adjust the tax base and assess penalties if they decide that arm's-length prices were not used in foreign related party transactions and the justification for the difference is not well documented.

THIN CAPITALISATION

- The thin-capitalisation rules have been cancelled as of 1 January 2004. This means that the entire amount of interest paid to related parties will be tax deductible.

FOREIGN EXCHANGE AND REVALUATION DIFFERENCES

- Foreign exchange differences booked through the profit and loss account arising from the revaluation of assets and liabilities as at the day of the statutory close of accounts are not part of the tax base.
- Revaluation differences booked through the profit and loss account from the revaluation of securities and derivates, up to their real value, are not part of the tax base.

TAX LOSSES

- The taxpayer can utilise a tax loss over a maximum of five consecutive tax periods, starting with the tax period immediately following that in which the taxpayer reports a tax loss. The tax loss does not have to be utilised equally over the utilisation period, nor does the amount of the utilised tax loss have to be reinvested.
- If the taxpayer reports another tax loss during the utilisation period, he can carry it forward as well, together with the earlier tax loss. Each year's tax loss should be considered separately and can be utilised over its own five-year utilisation period.

DEPRECIATION

- Capital allowances are generally available for expenditures incurred on tangible and intangible fixed assets.
- Intangible fixed assets are as follows:
  - industrial property rights, copyrights, including software, databases, projects, production and technological procedures, qualified information, forestry management plans, technical and economically exploitable knowledge with an input price exceeding SKK 50,000 and with operational and technical functionality or useful life exceeding one year, and which are acquired for consideration or development at an entity's own cost for the purpose of trading with them;
  - capitalised development costs;
  - incorporation costs exceeding SKK 50,000; and
  - technical upgrade of fully depreciated intangible fixed assets exceeding SKK 30,000.
- Intangible fixed assets must be depreciated within five years from the time they are put into use for accounting purposes.
- Tangible fixed assets are as follows:
  - separate movable assets and sets of movable assets with a purchase price exceeding SKK 30,000 and with an operational and technical life exceeding one year;
  - constructions (with certain exceptions) and buildings; and
  - certain animals and other assets.
- Some types of assets are excluded from depreciation, such as lands, artwork, and national monuments.

- Tangible assets are classified into depreciation groups to which different depreciation periods apply, as follows:

Depreciation Group	Depreciation Period (years)	Examples
1	4	Motor vehicles, office machines and computers, tools and implements
2	6	Engines, cooling/freezing equipments, accumulators, TV and radio receivers
3	12	Houses and buildings made of metal, turbines, air conditioners, ships
4	20	Buildings

- Taxpayers do not have to depreciate an asset every year. Depreciation may be interrupted in any year and continued in a later year without a loss of depreciation potential.
- A lessee can also depreciate a tangible fixed asset under a financial lease. In this case, the depreciation period equals the leasing period, the depreciation base equals the acquisition value of the assets as registered by the lessor, and depreciation charges are applied in equal amounts on a monthly basis.
- The value to be used as the basis for depreciation depends on how the asset is acquired:
  - acquisition costs (the price for which the asset was acquired); or
  - the taxpayer's own costs incurred, if the asset is acquired or produced internally.
- For most assets, the taxpayer can choose to claim depreciation on either a straight-line or accelerated basis in accordance with the following tables:

Straight-line method

Depreciation Group	Annual Depreciation
1	1/4
2	1/6
3	1/12
4	1/20

Accelerated method

Depreciation categories	Coefficient for accelerated depreciation		
	First year	Subsequent years	For increased residual value
1	4	5	4
2	6	7	6
3	12	13	12
4	20	21	20

CORPORATE INCOME TAX RETURN

- Slovak companies can change their accounting year from a calendar year to a fiscal year. If they change their accounting year, they can use the fiscal year accounting period for Slovak tax purposes.
- The deadline for submitting the tax return is within three months of the end of the tax period.

DIVIDENDS

- The tax on dividends, whether received from a resident or a non-resident company, was abolished.
- No withholding tax is due on dividends paid out of profits earned on or after 1 January 2004.
- Provisions and dividends may not be paid out until after the accounts are completed and a General Meeting of Shareholders approves them. Slovak law does not permit the payment of interim dividends.

TAX SECUREMENT

- If the Slovak entity pays a fee to a foreign entity, the Slovak entity has to deduct a tax securement of 19%. The tax administrator can approve a tax securement of half (9.5%) of the tax rate. This tax securement seeks to ensure that the foreign entity does not avoid its Slovak corporate tax liability.

SECURITIES

CAPITAL GAINS

- A profit from the disposal of securities (sales proceeds less acquisition price) is included in the general corporate income tax base.
- A loss from the disposal of securities is tax non deductible, except for the following cases (these exceptions do not apply to the sale of shares in a limited liability company or cooperative):
  - The taxpayer made a cumulative profit from the sale of securities and shares during the tax year, where the loss from individual sales can be offset with a profit from other individual sales of securities.
  - The selling price of securities is not lower by more than 110% of the average selling price on the stock exchange at the day of the sale, and the purchase price of securities is not higher by more than 10% of the average market price on the stock exchange at the day of acquisition.
  - The loss from the sale of bonds is lower than the accrued coupon on bonds already included in the tax base.
  - The taxpayer has a licence issued by state authorities to trade securities.
- The securities (except for those held to maturity) should be annually revalued to their market value. The revaluation takes place as of the balance sheet date, either through the profit and loss account or through balance sheet accounts. The revaluation differences are not included in the tax base.

TAX NON-RESIDENTS

- The sale of securities in the Slovak entity by a Slovak tax non-resident is subject to Slovak tax at 19%. Income from the disposal of securities is included in the general corporate income tax base and is subject to Slovak corporate income tax, subject to the provisions of the relevant double tax treaty.
- If the company disposing of the securities of a Slovak entity is not a Slovak tax-resident, and if the payment of the proceeds from the disposal is made by a Slovak tax resident, the income from the disposal is Slovak-source income and the payer of the proceeds must withhold a 19% securement tax.

INCOME FROM SECURITIES

Dividend income

- Dividends related to profits earned since 2004 (including liquidation surplus and settlement amounts paid to the shareholders and dividends paid from abroad) are not subject to Slovak corporate income tax.
- Dividends related to profits earned before 2004 and paid after 2004 are taxed for Slovak residents at the tax rate at 19%.
- Dividends related to profits earned before 2004 and paid after 2004 are not subject to tax for Slovak non-residents.

Interest income

- Interest income from securities is subject to a 19% tax rate. If interest is paid to Slovak tax residents, this income is included in the general tax base. If interest is paid to Slovak non-residents, this income is subject to withholding tax at source at 19% or at the rate specified in the relevant double tax treaty.
- Income from government bonds issued in a foreign currency until 31 December 2003 is exempt from taxation.

CORPORATE TAX FOR FOREIGN ENTITIES

GENERAL PRINCIPLES

- Foreign entities are generally subject to Slovak tax on income generated in the Slovak Republic.
- The extent to which a foreign entity is subject to Slovak tax is determined by activities undertaken in, or related to, the Slovak Republic.
- Foreign entities can be subject to taxation by establishing a branch, creating a permanent establishment, or withholding tax on Slovak-source income.

ELIMINATION OF DOUBLE TAXATION

- A double taxation treaty may eliminate double taxation of income from abroad for taxpayers seated in the Slovak Republic.
- It is possible to claim only tax related to incomes included in the tax base for the relevant tax period.

BRANCH OF A FOREIGN ENTITY

- A branch must be registered in the Slovak Commercial Register.
- It can be a trading or a non-trading branch.
- The tax base of a foreign company's branch may not be lower than the tax base a party unrelated to the foreign company would achieve from similar or the same activities under identical or similar conditions. If the branch's tax base cannot be assessed as described in the section "Corporate Income Tax", it can also be determined as the ratio of the profit/loss and the costs or the gross income in comparable activities of comparable taxpayers, or a comparable business margin and similar comparable indicators, if the tax base is justifiably determined on their basis. In addition, a method for allocating the taxpayer's total profit to its individual units or branches, while satisfying the arm's-length principle, can be applied. A taxpayer may ask the tax authorities in writing to approve the method for determining the branch's tax base. If the tax authorities do so, the taxpayer should apply this method over no less than one tax period; the method may not be changed during the tax period.
- A branch has the same registration, filing, payment, and advance payment obligations as local legal entities.

PERMANENT ESTABLISHMENT (PE)

- A PE is not necessarily a legal entity, but is a taxable entity.
- It is created by:
  - a permanent place or facility that is used either constantly or repeatedly, through which the foreign company carries out activities in Slovakia;
  - an activity, place or facility, if its presence while providing services in the Slovak Republic exceeds six months in any 12 consecutive months; or
  - a person who acts on behalf of the foreign company and repeatedly enters into agreements on its behalf under a power of attorney.
- The conditions for creating a PE may be modified by a double tax treaty.
- The method of taxation can be negotiated with the Tax Office (for more information, see the section "Branch of a Foreign Company").
- A PE has the same registration, filing, payment, and advance payment obligations as a local legal entity.

TAX SECUREMENT

- Individuals or entities may have to deduct taxes from payments made to foreign taxpayers having Slovak-source income.
- When paying, transferring, or crediting an amount to a foreign entity, the taxpayer must withhold 19% from Slovak-source income.
- The Tax Office may waive the obligation or lower the securement tax rate.

WITHHOLDING TAX

- The following payments are subject to withholding tax when made by Slovak companies to foreign parties (A double tax treaty may change the rate – see the appendix for specific rates for each country):

Management fees for services provided in the Slovak Republic*	19%
Royalties	19%
Interest from bonds and treasury bills	19%
Dividends	Not subject to tax

* These are fees for management services provided in the Slovak Republic (the fees represent Slovak-source income) that are paid by a Slovak tax resident company to a non-resident.

- Dividends paid out in 2004 and later years will not be subject to withholding tax.
- The tax should be paid to the Tax Office no later than 15 days from the end of the month following that in which the payment was made.
- The withholding obligation lies with Slovak tax residents. If the tax is not withheld, is withheld in an incorrect amount, or is not transferred to the Tax Office by the deadline, the unpaid tax will become the Slovak tax resident's debt and a penalty can be assessed and charged, which would be tax non-deductible.

CERIFICATE OF PAYMENT OF WITHHOLDING TAX

- The Tax Office will issue a confirmation that a foreign taxpayer paid withholding tax, if the foreign taxpayer requests one.
- The Slovak tax resident who withheld the tax can ask for this confirmation on behalf of the foreign entity.
- This confirmation serves as proof for foreign financial authorities that tax was paid in Slovak Republic.

CORPORATE TAX COMPLIANCE

TAX PERIOD

- The tax period can be:
  - a calendar year; or
  - a fiscal year (12 consecutive calendar months); or
  - the period from the effective day of:
    - a merger;
    - a forcible merger; or
    - a de-merger of a company (partnership) or co-operative to the end of the calendar year or fiscal year in which this merger, forcible merger, or de-merger is entered in the Commercial Register.
- To change the tax period from the calendar year to a fiscal year, the taxpayer must file a written application with the Tax Office or the Ministry of Finance three months before the suggested starting date of the fiscal year.

FILING

- Returns must be filed within three months following the end of the tax period.
- A three-month extension of the filing deadline is available to taxpayers. However, granting this extension is at the discretion of the Tax Office.
- The tax administrator may, at the taxpayer's request or at its own discretion, extend the filing or reporting deadline by not more than three months. If part of the income reported in the tax return is also income from sources abroad, the tax administrator may extend the filing deadline by no more than six months.

PAYMENT

- Tax payments are due on the day of the filing deadline.
- A company must pay corporate income tax advances if its last known tax liability exceeded SKK 50,000. The advance period starts on the day following the statutory date for filing the corporate income tax return.
- Advances are assessed:
  - quarterly (25% of the last known tax liability), if the last known tax liability exceeded SKK 50,000, and not exceeded SKK 500,000; or
  - monthly (1/12 of the last known tax liability), if the last known tax liability exceeded SKK 500,000.
- Upon filing a tax return, the difference between the advances paid and the actual liability is determined. Any outstanding amount must be paid on the date the tax return is due. Any overpayment will be refunded upon request or can be credited against future tax liabilities.

ASSESSMENT

- A tax may not be assessed or additionally assessed after five years from the end of the taxable period during which the obligation to file a tax return arose.
- If an action directed at the assessment of a tax or an additional tax is undertaken within five years from the end of the taxable period, the five-year period commences anew from the end of the year in which the taxpayer was notified of this act.
- Tax may be assessed or additionally assessed up to ten years after the end of the taxable period during which the tax liability arose.

AMENDED TAX RETURN

- If the taxpayer discovers an error in the tax return resulting in a higher tax liability or a lower loss, an amended tax return must be filed within one month following that in which the error was discovered. Any additional tax must be paid within this time limit.
- If the taxpayer discovers an error in its favour in a tax return already filed, an amended tax return can be filed under certain conditions.

FINES AND PENALTIES

- Taxpayers are subject to cash penalties if:
  - they fail to pay their tax liabilities in full and on time;
  - tax is under-declared in a tax return and is increased by an amended tax return that the taxpayer filed voluntarily; and

  - the Tax Office imposed an additional tax assessment as a result of an inspection.
- The tax administrator will impose a fixed penalty equal to four times the National Bank of Slovakia's basic interest rate on the difference in tax between that shown in the tax return and that determined by the tax administrator.
- If the taxpayer does not submit the tax return on time, there will be a penalty of up to SKK 1.5 million.
- In addition to penalties, the tax administrator will be able to impose interest of four times the National Bank of Slovakia's basic interest rate on overdue tax, for each day of late payment.
- Failure to comply with non-monetary obligations, such as late registration, may result in fines that can be imposed more than once, up to a total of SKK 2 million.
- The tax administrator must pay interest if it fails to refund a tax overpayment on time.

TAX CREDIT AND INVESTMENT INCENTIVES

Tax credit

- Currently there are four types of tax credits available for corporate entities in the Slovak Republic based on the Income Taxes Act No. 366/1999.
- The tax credit means that a company does not have to pay its tax liability (or part of it) for up to 10 years, depending on the extent to which it meets the conditions in the relevant Acts.
- Tax credits are available in accordance with:
  - Article 35; this credit is available for companies that were established before 31 December 2001, reported a tax profit for the first time in their existence after 1 January 2000, and applied the tax credit in the year they generated a tax profit for the first time.
  - Article 35 a); this credit is available for companies that were established before 31 December 2003, reported a tax profit for the first time in their existence after 1 January 2001, and applied the tax credit in the year they generated a tax profit for the first time.
    - To apply tax credits under Articles 35 and 35 a) after 1 January 2002, the company must comply with the Act on State Aid.
    - The Act on State Aid lists several conditions that must be met, and stipulates the amount of tax credit that can be obtained.
    - A taxpayer interested in taking the tax credit under Articles 35 and 35 a) after 1 January 2002 must meet the provisions of the Income Taxes Act and the Act on State Aid.
    - At 1 January 2004, some conditions concerning Articles 35 and 35 a) as listed in the Income Taxes Act are cancelled.
  - Article 35 b); this credit is available for companies that were established after 1 December 2001.
  - Article 35 c); this credit is available to any company.
    - To apply the tax credits under Articles 35 b) and 35 c), the company must comply with the Act on State Aid, which refers to the Act on Investment Incentives. This means that they have to meet the conditions of the Act on State Aid, the Investment Incentives Act, and the Income Taxes Act.
    - Taxpayers must receive a decision on whether or not they can obtain the tax credits under Articles 35 b) and 35 c) by 31 December 2006.

Investment Incentives Available

- The following investment incentives are available:
  - tax credit based on Art 35 b) and Art 35 c) of Income Taxes Act;
  - financial support for creating jobs; and
  - financial support for retraining employees.

Conditions to be met under the Investment Incentives Act

- A company must satisfy the following criteria:
  - Establish a new operation or modernise existing production facilities.
  - Invest at least SKK 400 million for the acquisition of tangible or intangible fixed assets, with a minimum of SKK 200 million of this being financed from the equity of the company receiving the investment incentives.
  - If the business activity is to be performed in a region with an unemployment rate of at least 10%, the amounts specified above are reduced to SKK 200 million and SKK 100 million respectively.
  - The acquisition of tangible and intangible fixed assets and beginning the business activities indicated in the application must take place within three years from the date the Ministry of Economy approves the investment incentives.
  - At least 80% of the company's total revenues must be generated from the business activities set out in the application for investment incentives.

Financial support for creating jobs and retraining employees

- The level of contributions for creating new jobs is between SKK 30,000 and SKK 160,000, depending on the rate of unemployment in the region where the position is created.
- The grants are paid in monthly instalments of SKK 10,000 for each employee, starting 12 months after the new employee is hired, provided the job position is still occupied in the month the contribution is paid and certain other conditions are met.
- The subsidies for retraining employees is a maximum of SKK 10,000 for each employee, provided the employer hires the employee for at least 12 months after completing the retraining.

OTHER TAXES

VALUE-ADDED TAX

- Please note that the information regarding the new VAT rules that will apply after Slovakia's accession to the EU are based on the draft Slovak VAT Act, which the Slovak Parliament has not yet approved.

VAT REGISTRATION

- The VAT registration threshold for taxable entities with their seat, place of business, or permanent establishment in Slovakia, should be a turnover of SKK 1.5 million (approximately EUR 35,000) for the previous 12 calendar months. The application for obligatory registration must be filed with the tax authorities by the twentieth day of the month following that in which the turnover threshold is reached.
- VAT registration should be obligatory, if:
  - a legal entity or individual acquires a registered business or part of such business;
  - a foreign entity starts providing taxable supplies in Slovakia;
  - a foreign entity makes long-distance sales in Slovakia to persons not registered for Slovak VAT purposes, and the total value of the supplied goods reaches SKK 1.5 million (approximately EUR 35,000) in a calendar year;
  - a foreign entity makes long-distance supplies of goods to individuals for personal consumption, and these goods are subject to excise tax; or
  - a Slovak taxable entity or legal entity that is not a Slovak registered VAT payer acquires goods from another EU-member state at a total value of SKK 420,000 (approximately EUR 10,000) or more in a calendar year.
- Voluntary VAT registration should be available in all of these cases, except where foreign entities do not provide taxable supplies in Slovakia. An entity can voluntarily register for VAT by filing a request for VAT registration with the tax authorities.
- Group companies cannot register as a single VAT entity, but it is possible for two or more companies to conclude an "association agreement" under which certain supplies between them are not subject to VAT.

VAT DE-REGISTRATION

- A registered VAT payer can de-register in the following cases:
  - If the payer stops his business activities.
  - If the registered foreign entity stops providing taxable supplies in Slovakia.
  - A VAT payer can ask to be de-registered only after being registered for VAT for one year, and provided that its taxable turnover in the last 12 calendar months did not reach SKK 1.5 million (approximately EUR 35,000).
  - The foreign entity that makes long-distance sales to Slovakia can ask to be de-registered after one year of VAT registration, and provided that the total value of the supplied goods will not reach SKK 1.5 million in the relevant calendar year and did not reach SKK 1.5 million in the previous calendar year.
  - If an entity registered for acquisition of goods from another EU-member state does not acquire goods from another EU-member state at a total value of SKK 420,000 (approximately EUR 10,000) in the relevant calendar year and also did not reach this threshold in the previous calendar year.
  - A VAT payer can also be de-registered by the tax authorities if there are no valid reasons for registration.
- The tax authorities determine the last VAT period. From the end of this period, the VAT payer stops being a registered VAT payer. The VAT payer must return the original Certificate with its VAT identification number within 10 days from the end of the last VAT period.

VAT RATES

From 1 January 2004, a unified VAT rate of 19% is applied to all taxable supplies.

EXEMPT SUPPLIES

- The draft VAT Act has extended the provisions related to VAT exemptions. The scope of current exempt supplies without credit entitlement will be modified, taking the EU's Sixth Directive into account. These supplies include postal services, financial and insurance services, education, radio and TV broadcasting services, health and social services, as well as the transfer and leasing of real estate, and lottery services. The extended list of VAT-exempt transactions without credit entitlement also includes:
  - Services supplied to members (political parties and movements, churches, labour unions, civil movements, professional chambers, non-profit entities).
  - Services related to sport and physical education (provided by non-profit entities to persons participating in sport or physical education).
  - The supply of goods where input VAT was not deductible and was used for providing exempt supplies without credit entitlement.
- The current exempt taxable supplies with credit entitlement will be modified based on the single-market principles. These include:
  - The intra-community supply of goods.
  - Specific intra-community acquisitions (as defined in the draft Act).
  - Triangulation transactions.
  - Specific transport services.
  - The export of goods outside of the EU.
  - The import of certain goods.
- A VAT payer can choose to charge VAT on the transfer of a building and can choose to charge VAT on the lease of a building, if it is leased to another VAT-registered payer.

VAT RECOVERY

- A VAT payer can deduct input VAT related to taxable supplies received in order to provide its own taxable supplies in the month when all the following conditions are met:

- a VAT liability arose to the supplier from the supply of goods or services;
  - it has a valid VAT document; and
  - the import VAT is paid (when goods are imported).
- A VAT-registered person must allocate its purchases to one of the following three groups of taxable supplies:

Group 1 – a full reclaim of VAT is possible for:
- purchases used for entrepreneurial activity subject to VAT;
- purchases related to certain VAT-exempt supplies (such as insurance services or financial services if these are provided to an entity outside the EU); and
- purchases related to certain supplies outside the scope of VAT.

Group 2 – no reclaim of VAT is possible for:
- a purchase used to provide the majority of VAT-exempt supplies.

Group 3 – a partial reclaim of VAT is possible for:
- purchases used for both Group 1 and Group 2 supplies; and
- purchases where the usage is unclear.

In this case, the VAT payer must reduce its reclaim of VAT by a coefficient determined by reconciling the amount of taxable supplies (Group 1) against the total amount of all supplies (including VAT-exempt supplies).

- The ability to make an adjustment to tangible and intangible assets if the purpose of its use has changed from one depreciation group to another (as specified above) is limited to five years from the date of acquisition.
- The ability to make an adjustment to real estate is limited to ten years after the date of acquisition.

NON-RECOVERABLE VAT

- VAT incurred on the following is always non-recoverable and is therefore always an actual cost to a business:
  - passenger cars and car accessories (other than those purchased by car dealers and leasing companies);
  - technical improvements to passenger cars;
  - returnable bottles; and
  - entertainment costs, refreshments, and representation costs.

VAT COMPLIANCE

- VAT is administered by the tax authorities, except for VAT on imports, which the Customs Office will administer.
- A valid VAT document must be issued for every taxable supply rendered to a taxable person or non-taxable legal person. The VAT document must be issued within 15 days of making the supply.
- Complete and accurate VAT records and documents must be kept for ten years. For VAT reclaim purposes, this involves keeping valid VAT invoices or receipts.
- Records of provided and received taxable supplies must be kept for each VAT period separately and must be divided between domestic supplies of goods and services, intra-community supplies of goods and services, intra-community acquisitions, and imported goods. Received supplies must be further allocated into one of three groups (see above).
- Monthly VAT returns must be filed if annual turnover exceeds SKK 10 million. VAT returns must be filed each calendar quarter if turnover for the previous calendar year is less than SKK 10 million. However, a VAT payer can submit a return for a monthly VAT period if he wishes to do so.
- VAT returns must be filed within 25 days of the end of the taxable period and any VAT liability must be paid within this period.

VAT REFUNDS

VAT refund for Slovak VAT payers

- A VAT payer is not entitled to a cash VAT refund. However, the input VAT credit should be carried forward and offset against its future VAT liabilities. From 1 January 2004 and after Slovakia's accession to the EU on 1 May 2004, if a VAT payer cannot offset a VAT credit in the VAT period following that in which it arose, the tax authorities should refund it to the VAT payer within 30 days of the VAT payer submitting a written request for this refund.

VAT refund for foreign entities

- A legal entity or an individual that is registered for VAT abroad, or who is registered as a payer of a similar general consumption tax abroad, is entitled to claim a refund of Slovak VAT paid upon the delivery of certain goods or the provision of certain services, if the following conditions are met:
  - The entity/individual did not have any registered office, branch, or authorisation to conduct business in Slovakia during the period for which the VAT refund request was filed.
  - The goods or services were purchased in Slovakia, or the goods were imported to Slovakia, for the purpose of their business conducted outside Slovakia.
  - During the period for which they filed a VAT refund request, they did not sell any goods or provide any services in Slovakia.
- The VAT refund can be claimed by submitting a request to the Tax Office Bratislava I. The request for a VAT refund can be submitted only if the VAT amount paid for the taxable supplies exceeds SKK 1,000 in one calendar year. The refund request can only be submitted within six months after the end of the relevant calendar year. The request can also be submitted before the end of the calendar year if the request applies to at least three consecutive months and the VAT amount paid for the taxable supplies exceeds SKK 8,000.
- The request for a VAT refund must be filed on a special form issued by the Slovak Ministry of Finance. This form is available from the tax authorities. If the tax authorities approve the request, the VAT amount will be paid to the foreign company within six months from the day of filing the request.
- The Slovak VAT is refunded to entities from EU countries. It is also refunded to those from non-EU countries based on reciprocity – if the entity's country of residence refunds VAT to Slovak entities.

VAT refund to individuals

- An individual who has no permanent or temporary residence permit in EU countries and who exports any goods except of fuel for personal purposes from EU countries can file a request for a VAT refund.
- The individual can submit a request for a VAT refund if:
  - the amount of the goods exported outside the EU exceeds SKK 5,000;
  - he has an original tax document;
  - export of goods is carried out within three months from the day the goods are purchased; and
  - the Customs Office certifies the export of goods.

EXCISE TAXES

- The new Excise Taxes Acts will be fully harmonised with EU legislation and will be fully effective from Slovakia's accession to the European Union on 1 May 2004.
- The tax suspension arrangement will be effective for all the excise products from 1 May 2004. This means that the tax liability will be postponed until the day the product is released into the free circulation regime.
- The following information is based on legislation that the Slovak Parliament has approved, but has not been signed by president.

PRODUCTS LIABLE TO EXCISE TAXES

- Mineral oil
- Beer
- Wine
- Spirits
- Tobacco products
- Slovakia has applied for a ten-year transition period for the excise tax on electric energy, coal, and natural gas. This excise tax should be effective in the European Union as of 1 January 2004.

AUTHORIZED ENTITIES

- The authorized warehouse keeper within its business activity and based on the authorisation for running the warehouse, produces, stores, receives or sends excise products under the tax suspension arrangement.
- The authorized consignee is not a warehouse keeper, and under its business activity, regularly or occasionally receives an excise product under the tax suspension arrangement from another EU-member state. The authorized consignee cannot store or transport the excise products.
- The tax trustee is authorized to facilitate the supply of products on behalf of the tax warehouse keeper with the registered office in another EU-member state to Slovak customers who are not authorized warehouse keepers or authorized consignees. The tax trustee must be registered with the Customs Office and cannot be the customer.
- The company must be authorized to use the product exempt from excise tax. The company has to register with the Customs Office and apply for a licence.

REGISTRATION

- Entities that want to produce, store, receive or send excise products under the suspension arrangement must register with the Customs Office by 31 March 2004and pay the guarantee before the authorization is issued. .
- The registration and licence (if necessary) are issued by the Customs Office on the basis of a written application.

DEREGISTRATION

- The Customs Office can take away the licence or the authorization if the conditions under the Excise Taxes Acts are not met, or if any supply was not carried out in the last 12 months, or for others reasons specified in the Acts.

RATES

PRODUCT	RATE
Mineral oil	
Motor fuel (classified according to the combined nomenclature)	SKK 15,500 or 18,000/1,000 l
Middle oil	SKK 14,500/1,000 l
Gas oil	SKK 14,500/1,000 l
Heating oil	SKK 800/1,000 kg
Liquefied gas carbohydrates:	
Used as fuel	SKK 7,800/1,000 kg
Used as a combustible	SKK 0/1,000 kg
Beer	
Basic rate	SKK 50/degree Plato/hl
Lowered rate	SKK 37/degree Plato/hl
Wine	
Still wine	SKK 0/hl
Sparkling wine	SKK 2,400/hl
Sparkling wine (alcohol under 8.5%)	SKK 1,700/hl
Semi-finished product	SKK 2,500/hl
Spirits	
Basic rate	SKK 25,000/hl of 100% ethyl alcohol
Lowered rate	SKK 12,500/hl of 100% ethyl alcohol
Tobacco products	
Tobacco	SKK 1,350/kg
Cigars	SKK 1.40/piece
Cigarettes (combined rate):	
Specific part	SKK 0.86/piece
Per cent part	19.8% from the price of the consumer package mentioned on the control checkmark

- The lowered rate for beer applies to beer produced by a small, independent brewery, or on beer imported from another EU-member state if it was produced in a small, independent brewery.
- The lowered rate for spirits applies to spirits produced in a distillery for fruit distillation up to 30 l for one cultivator and his household per season.

EXEMPTION FROM EXCISE TAXES

- Tobacco, wine, beer and spirits are exempt from excise tax if they are:
  - taken as a sample;
  - taken for laboratory examination;
  - destroyed under a tax suspension arrangement;
  - destroyed under the supervision of the Customs Office; or
  - imported by an individual for non-business purposes.
- For wine, beer and spirits, there are exemptions for:
  - the production of vinegar;
  - the production of aromatic substances used in food industry (up to 1.2% of alcohol);
  - the production of food products and semi-finished products (up to 5 l of alcohol in 100 kg of product and 8.5 l of alcohol in 100 kg of chocolate products); and
  - the production of medicine by authorized entities.
- Beer, wine, spirits and tobacco can be sold without excise tax exclusively on board international flights or in the transit zone of an international airport to individuals who are travelling to a destination outside the European Union. The sales person must issue a sales document with the name of the person, the number of the flight, the destination airport, and the identification of the products.
- Mineral oil is exempt from excise tax if it is:
  - used for other purposes besides as a fuel or a combustible;
  - used as a fuel for aircrafts and ships for specific purposes;
  - used as a fuel additive; or
  - used for the purposes mentioned above for tobacco, wine, beer and spirits.

LONG-DISTANCE SALES

- Long-distance sales supply a product that is already released in free tax circulation by a person who has his registered office in another EU-member state to a Slovak person for private purposes.
- The supplier is the tax debtor.
- The supplier must inform the customs authorities about the supply.
- The customer cannot be a warehouse keeper or authorized consignee.

EXCISE TAX COMPLIANCE

- Excise taxes are administrated by the Tax Offices, except for the excise tax on mineral oil, which the Customs Office administers.
- As of 1 May 2004, the Customs Offices will administer all excise taxes.
- Monthly excise taxes returns have to be filed within 25 days of the end of the taxable period and excise tax liabilities must be paid within this period.
- The taxable period is a calendar month.
- The excise products transported within the EU under the suspension arrangement can be transported only with an accompanying administrative document.
- The accompanying administrative document should be issued in four copies. The first copy remains with the supplier. Three copies accompany the supply to the customer. The customer keeps the second copy and sends two copies with confirmation of the received goods, e.g. mineral oil to the tax authorities, who keep the fourth copy and return the third copy to the supplier through the customer.
- The simplified, accompanying administrative document is required if any person within its business activity supplies goods, e.g. mineral oil to another EU-member state for business purposes. The simplified accompanying document should be issued in three copies.

EXCISE TAX REFUNDS

- In certain circumstances, the tax warehouse keeper, the company, or another entity can obtain a refund of Slovak excise tax on a product that has been taxed.
- The foreign persons qualifying for privileges and immunities under international treaties can obtain a refund of Slovak excise tax for a product that has been taxed. The products for each sale document must cost more than SKK 2,000 (This limit does not apply for the excise tax on mineral oil).

ROAD TAX

- Taxable vehicles are vehicles registered in the Slovak Republic or abroad used for business purposes in Slovak Republic, including private vehicles used for commercial purposes.
- Exempt vehicles include:
  - Motorcycles;
  - vehicles used by diplomats or consuls;
  - vehicles used for public transport and waste disposal;
  - public emergency and rescue vehicles;
  - electric or solar vehicles;
  - foreign vehicles under 3.5 tonnes registered abroad that are not used by entities having a permanent residence or a branch in Slovak Republic; and
  - vehicles registered in the Slovak Republic that are used abroad during the entire tax period.
- The taxpayer is the individual or legal entity named on the vehicle's registration document, the driver in international transport, or the person using the vehicle if the individual named on the vehicle's registration document died or if the legal entity has ceased to exist.
- Tax rates:
  - for passenger cars – from SKK 1,600 to SKK 5,600 yearly, depending on engine capacity;
  - for other vehicles, such as delivery vans, lorries, trucks and trailers – from SKK 1,800 to SKK 71,800 yearly, depending on the number of axles and the vehicle's weight; and
  - for vehicles registered abroad – the number of days the vehicle is used in the Slovak Republic.

- The tax period for foreign vehicles is the period between their entrance into and departure from the Slovak Republic. The tax is levied by the customs authorities and is payable upon entry into the Slovak Republic. No tax return is required and any underpayments must be paid upon departure from the Slovak Republic (overpayments are not returned).
- The tax period for vehicles registered in the Slovak Republic is a calendar year. A taxpayer must file the tax return and pay the tax liability in advance by January 31 for the current year. If the taxpayer's total road tax liability exceeds:
  - SKK 50,000, he can divide his tax liability into four equal quarterly payments; or
  - SKK 250,000, he can divide his tax liability into 12 equal monthly payments.
- Proportion of the vehicle's usage for business purposes throughout the tax period has no effect on the amount of the tax liability.
- The standard tax rates can be reduced for combined transport car – train, car – boat, or car – train – boat from 25% up to 100%, depending on the number of journeys in the tax period.

REAL ESTATE TRANSFER TAX

- This tax is levied on the sale or transfer of real estate for a consideration.
- Exemptions:
  - the first transfer of residential property by a builder;
  - the transfer of new construction not yet in use after collaudation, by a company active in real estate construction or trade, to a purchaser who will lease the building to other parties under a financial lease; and
  - the acquisition of real estate by a lessee based on a financial lease, if the previous transfer of real estate to the lessor was subject to the real estate transfer tax.
- Applies to the higher of the agreed transfer price and the officially assessed value.
- Is generally payable by the seller (transferor).
- In 2004, the rate is 3%.
- The taxpayer must file the return and pay the tax liability within 90 days from the day the transfer of ownership is registered in the cadastre Land Register. Or where a building is not finished or not yet registered in cadastre the Land Register, within 90 days from the date the transfer agreement is effective.
- The taxpayer must calculate the tax himself.
- The tax should be fully abolished from 1 January 2005.

REAL ESTATE TAX

- Is generally payable by the registered owner of land, buildings and flats located in the Slovak Republic.
- If ownership cannot be determined, the tax is payable by the user of the land/property.
- The taxable period is the calendar year.
- The taxpayer must file the tax return by 31 January of the relevant tax period. The tax administrator will issue the tax assessment by 15 March of the current year (at the latest), taking into account the taxpayer's status as of 1 January of the current year. The taxpayer must file the tax return by 31 January of the relevant tax period.
- The annual tax is due by 31 March if lower than SKK 500 for individuals and SKK 5,000 for legal entities.
- The tax is payable in three instalments for taxpayers involved in agriculture, and one to four times a year for other taxpayers.
- Tax rates:
  - on agricultural land – from 0.25% to 0.75% of the official land price;
  - on developed land – from SKK 0.10 up to SKK 9.0 per square metre; and
  - on buildings – from SKK 1.0 to SKK 50 per square metre of registered area; the rate is increased by SKK 0.75 per square metre for floors above the ground floor and multiplied by a coefficient between 1.0 and 4.5, according to the geographical location of the land.

INHERITANCE AND GIFT TAX

- Abolished from 1 January 2004.

APPENDIX

Recipient	Dividends (1) (%)	Interest (%)	Royalties (%)
Resident corporations	0/15/19/25 (1)	19	0
Resident individuals	0/15/19/25 (1)	19	0
Non-resident corporations, individuals:			
Non-treaty:			
Corporations	0/15/19/25 (1)	19	19
Individuals	0/15/19/25 (1)	19	19
Treaty:			
1 Australia	15	10	10
2 Austria	10	0	0/5 (2)
3 Belgium	5/15 (7)	0/10 (3a)	5
4 Belarus	10/15 (7)	0/10 (6)	5/10 (18)
5 Bulgaria	10	0/10 (6)	10 (16)
6 Brazil	15	0/10/15 (3) (6)	15/25 (2)
7 Canada	5/15 (22)	0/10 (23)	0/10 (2)
8 China, P.R.	10	0/10 (10)	10
9 Croatia	5/10 (7)	10	10
10 Cyprus	10	0/10 (6)	0/5 (2)
11 Czech Republic	5/15 (5)	0	0/10 (2)
12 Denmark	15	0	0/5 (2)

Recipient	Dividends (%) [1]	Interest (%)	Royalties (%)
Treaty:			
13 Finland	5/15 [7]	0	1/5/10 [19]
14 France	10	0	0/5 [2]
15 Germany	5/15 [7]	0	5
16 Greece	Local rates	0/10 [6]	0/10 [2]
17 Hungary	5/15 [7]	0	10
18 Iceland	5/10 [7]	0	10
19 India	15/25 [7]	0/15 [10]	30
20 Indonesia	10	0/10 [6]	10/15 [11]
21 Ireland	0/10 [8]	0	0/10 [2]
22 Israel	5/10 [5]	2/5/10 [21]	5
23 Italy	15	0	0/5 [2]
24 Japan	10/15 [9]	0/10 [10]	0/10 [2]
25 Korea	5/10 [7]	0/10 [10, 25]	0/10 [2]
26 Luxembourg	5/15 [7]	0	0/10 [2]
27 Latvia	10	0/10 [10]	10
28 Lithuania	10	0/10 [10]	10
29 Malta	LPT/5 [20]	0	5
30 Netherlands	0/10 [7]	0	5
31 Nigeria	12.5/15 [15]	0/15 [6]	10
32 Norway	5/15 [7]	0	0/5 [2]
33 Poland	5/10 [13]	0/10 [10]	5
34 Romania	10	0/10 [10]	10/15 [2a]
35 Russia	10	0	10
36 South Africa	5/15 [7]	0	10
37 Spain	5/15 [7]	0	0/5 [2]
38 Sri Lanka	15	0	0/10 [2]
39 Sweden	0/10 [7]	0	0/5 [2]
40 Switzerland	5/15 [7]	0/10 [17]	0/5/10 [2] [24]
41 Tunisia	10/15 [7]	12	5/15 [2]
42 Turkmenistan	10	0/10 [6]	10
43 Turkey	5/15 [7]	0/10 [6]	10
44 Ukraine	10	10	10
45 United Kingdom & North Ireland	5/15 [14]	0	0/10 [2]
46 United States	5/15 [15]	0	0/10 [2]
47 Uzbekistan	10	10	10
48 Serbia and Montenegro (Yugoslavia)	5/15 [7]	10	10
49 Slovenia, Macedonia, Bosnia and Herzegovina	5/15 [7]	0	10

The numbers in parentheses refer to the notes below:

1. The 5% rate applies to payment of interest from long-term private bank accounts if principal and interests are withdrawn after three years. The 20% rate is to be withheld by employers paying interest on deposits made by their employees.

1a. The higher rate applies to payment of interest from credits and loans.

2. The lower rate applies to financial lease contracts (with purchase option for a lessee).

3. The higher rate applies to settlement payment and liquidation surplus.

4. The lower rate applies to cultural royalties.

4a. The rate of 10% applies to royalties for the use of trademarks, patents or know-how. The higher rate applies in any other cases.

5. The lower rate applies to interest on loans and credits granted by a bank for at least ten years in connection with the sale of industrial equipment; with the study, installation or furnishing of industrial or scientific units; or with public works.

5a. The zero rate applies to interest: on certain commercial debt-claims, loans guaranteed by public entities for export promotion, accounts/loans between banks/public institutions of the two states and the interest paid to the other state or political subdivision of the local authority of that state.

6. The higher rate applies to payments for the use of trademarks.

7. The lower rate applies if the recipient is a company that owns at least 10% of the shares in the company paying the dividend.

8. The lower rate applies if the interest is received from the government or its bodies.

9. The lower rate applies if the recipient is a company (some treaties exclude partnerships) that owns at least 25% of the capital of the company paying the dividend directly.

10. The lower rate applies if the recipient is a company that owns at least 25% of the voting power of the company paying the dividend directly.

11. The lower rate applies if the recipient is a company that has beneficial ownership of at least 25% of the capital of the company paying the dividends.

12. The lower rate applies if the recipient is a company that owns at least 25% of the voting shares of the company paying the dividend during the six months immediately preceding the date of payment of the dividend.

13. The lower rate applies if the interest is received by the government or its bodies.

13a. The zero rate applies if the interest is derived by the government, including local authorities of it, a political subdivision, the central bank or any financial institution controlled by the government, from the government of the other state.

13b. The zero rate (of local tax) applies if the interest is paid by the government or central bank of the state to the government or central bank of the other state.

14. The lower rate applies if the recipient owns directly no less than 25% of the capital of the company paying the dividend.

15. As amended by protocol number 199/1997 Z.z. (Col.).

16. The lower rate applies if the recipient is a company (not a partnership) that is a beneficial owner of at least 20% of the capital of the company.

17. The lower rate applies if the recipient is a company that controls at least 25% of the voting power of the company paying the dividend.
18. The lower rate applies if the recipient is a company that owns at least 10% of the voting shares of the company paying the dividend.
19. This rate applies also to payment for services.
20. Withholding tax is reduced to nil on bank loans.
21. The lower rate applies to cultural royalties and the higher rate to payments for the use of trademarks and vehicles.
22. The 1% rate applies to the financial lease of equipment, the 5% rate applies to the rental of equipment or software and to cultural royalties, and the 10% rate applies to payments for the use of trademarks and know-how.
23. Local profit tax (LPT) applies if the dividends are paid by a company with residence in Malta, to a recipient with residence in Slovakia. The 5% rate applies if the dividends are paid by a company with residence in Slovakia, to a recipient with residence in Malta.
24. The 2% rate applies to state bonds and obligations, and loans insured and guaranteed by the National Bank of Slovakia/,the Bank of Israel, the Slovak Society for Insurance of Foreign Credits and Loans, or the Israeli Society for Insurance of Foreign Trade; the 5% rate applies if received by a financial institution (in common business activities); the 10% rate applies in all other cases.
25. The lower rate applies if the recipient is a company that owns directly or indirectly at least 10% of the voting power of the company paying the dividends.
26. The lower rate applies to interest paid for the indebtedness of the other state government or political subdivision or local authority of it and for a loan made or guaranteed by the other state government for imports or exports.
27. The 10% rate applies to royalties for cinematography, TV broadcasting, and radio broadcasting, as well as giving up any rights related to royalties. The higher rate applies in any other cases.
28. The lower rate applies if the recipient and beneficial owner is the government or its bodies or institutions established by the government for foreign trade financing (if the loans are approved by both governments).

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