Pocket Tax Book

Slovakia, 2005

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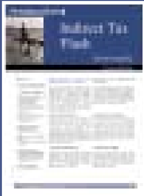

Indirect Tax Flash

This flash covers major changes in the VAT Act.

The Slovak Pocket Tax Book

2005

Slovak Republic

This booklet is based on taxation law and practice as at 31 January 2005. 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 Slovak tax on their worldwide income, subject to relief under an applicable double tax treaty, or under the Slovak law.
- Slovak tax non-residents are subject to tax on their Slovak-source income only.
- The tax year is the calendar year.
- The tax rate is a flat rate of 19 %.

TAX RESIDENCE

Slovak tax residents

- An individual is considered a Slovak tax resident if:
  - He/she has a permanent residence in the Slovak Republic, as evidenced by a Slovak ID card (for Slovak nationals), or by a permanent residence permit (for expatriates); or
  - He/she is physically present in the Slovak Republic for 183 days or more in a calendar year, either continuously or in total.

Slovak tax non-residents

- 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 carried out in the Slovak Republic, including director's fees.
  - Income from an independent business, or from technical or consulting services, and similar activities carried out in the Slovak Republic.
  - Income from interest, licence fees, the sale or rental of property located in the Slovak Republic, or lottery winnings.
- Income can be subject to Slovak tax regardless of whether or not it is remitted to the Slovak Republic.

GROSS INCOME

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

- Other income

Employment income

- Taxable remuneration from employment includes all remuneration, whether monetary or non-monetary, including in-kind benefits provided to an employee. Statutory health insurance and social security contributions paid by the employee reduce taxable income. The taxable income of individuals is also reduced by supplementary pension contributions, life insurance contributions, and special-purpose savings, if certain conditions are met. Payments of these items can decrease the tax base of the individual by a maximum of SKK 12,000 per year.
- Obligatory employer's health insurance and social security contributions paid by the employer are not part of the employee's taxable income.
- Remuneration and benefits paid by a Slovak employer is generally taxed through monthly payroll tax withholding.
- Taxable income for a particular tax year 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 (e.g. accommodation, utility costs, private health insurance, school fees, recreation costs, and nursery facilities)
  - **Company car and fuel costs:**
    - The taxable benefit is equal to 1% of the car's purchase price for each calendar month or part month during which the car is available for private use; and
    - Fuel costs paid by the employer for an employee's private use are also a taxable benefit for the employee.
- Reimbursement of business **travel expenses** in excess of statutory limits (currently SKK 5.40 per kilometre).
- **Meal allowances** for business trips in excess of statutory limits, which depend on the duration of the business trip. The statutory limits are currently as follows:

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

  The non-taxable daily meal allowance for business trips

outside the Slovak Republic varies according to the country visited and is updated on a regular basis. Non-taxable pocket money for business trips outside the Slovak Republic is between 5% and 40% of the statutory limit for meal allowances for that country.

- **Share option schemes**
  - In general, individuals pay tax on the exercise of share options.
  - The taxable income is the difference between the market value of the share at exercise, and the acquisition price for the employee.
  - 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.

Entrepreneurial income and rental income

Entrepreneurial income

- Taxable entrepreneurial income includes 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 deadlines. They must also pay tax advances based on their prior year 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 that their

income is derived 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

- Taxable rental income includes income from leasing or renting out real estate and movable property.
- The taxable income is the rental income less related tax-deductible expenses, for example depreciation costs (normally over a period of 20 years for buildings), related 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 deduction of up to 25% of the rental income.

Investment income

- Taxable investment income includes interest and other yields from securities, interest, winnings and savings on deposit accounts that are not related to business activities, yields from supplementary pension insurance, and yields from life insurance after passing a certain age. These types of income are subject to withholding tax, unless they are received from abroad, in which case they are treated as part of the tax base.
- The withholding tax may be reduced under double taxation treaties for individuals who are not Slovak tax residents.

Dividend income

- Dividend income from after tax profits arising in 2004 or later years is not subject to Slovak tax.

Capital gains

- There is no separate capital gains tax in the Slovak Republic.
- Gains on the sale of non-business property are tax exempt if the individual has owned the property for non-business purposes for longer than a specified time limit:
  - Flats permanent residence and ownership 2 years
  - Other real estate 5 years
  - Any real estate previously used for business purposes 5 years

Other income

- Other taxable income includes:
- Occasional income (depending on its nature);
- Income from the sale of real estate;
- Income from occasional renting out of movable property;
- The transfer of securities. A profit on the sale of securities by individuals is exempt from Slovak taxation as follows:
  - up to the amount of five times the minimum subsistence level applicable on 1 January of the respective tax period; and
  - if listed securities were acquired before 1 January 2004 and were held for more than three years at the time of sale (five years for shares in a cooperative, a general partnership, a limited partnership and a limited liability company).
- Income from the sale of a participation in a business;
- Prizes from advertising competitions and lotteries
- Individuals who are not Slovak tax residents must pay Slovak income tax on any profits or gains from Slovak sources, unless relief is available under a double tax treaty, or there is a specific exemption in the Slovak law.

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.
- There are some restrictions on deducting losses from one type of activity from taxable profits of another type of activity.
- Losses arising from business or rental property can be offset against other sources of income, with the exception of employment income. If an overall loss is realized, it can be carried forward and offset against taxable income arising from most types of non-employment income 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.

PERSONAL ALLOWANCES

- Generally, a personal allowance of 19.2 times the minimum subsistence amount announced on 1 January each year is available to all individuals. For 2005, the personal allowance is SKK 87,936.
- A dependent spouse allowance of up to 19.2 times the

minimum subsistence amount can also be claimed by individuals with permanent residence in Slovakia, provided the spouse does not have income in excess of the allowance amount, i.e. SKK 87,963 for 2005. The spouse allowance is the difference between 19,2 times the subsistence minimum (i.e. SKK 87,963) and the spouse's actual income.

TAX BONUS

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

TAX RATE

- The personal tax rate is a flat rate of 19%.

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 for the branch; and
  - economic employees.
- The employer withholds the tax from the employee's salary and must pay this tax to 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 employment income from Slovak sources during a calendar year, the employer must (if requested by the employee) produce an annual tax reconciliation on the employee's behalf. In effect, 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 of becoming subject to Slovak tax.

TAX RETURNS

- Generally, everyone who is subject to Slovak personal income tax must submit a personal income tax return, unless his only income is taxed through a final withholding tax, is not subject to personal income tax, or is salary taxed through a Slovak payroll, and his employer arranges an annual tax reconciliation.
- The filing and payment deadline is 31 March of the calendar year after that in which the income is earned. A filing deadline can be requested, but granting this is at the discretion of the tax authorities.
- Husbands and wives must file separate returns.
- The tax period is the calendar year.

TAX ADVANCES

- Generally, for individuals who are not taxed through a Slovak payroll, 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 amount of advance tax payments should be negotiated with the Tax Office based on the expected tax liability.
- Advance payments must normally be made on the following basis, unless the Tax Office agrees otherwise, on the request of the taxpayer:
  - If the previous year's tax liability exceeded SKK 500,000, one-twelfth of the prior year's liability must be paid monthly, usually by the last day of each month.
  - If the previous year's tax liability was between SKK 20,000 and SKK 500,000, one-quarter of the prior year's liability must be paid on 30 June, 30 September, 31 December and 31 March.
  - 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, separate tax 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 as stated above will be payable as advances.

PENALTIES

- High penalties can be imposed for failing to file a tax return

or pay taxes, filing a tax return late, paying taxes late, or failing to declare significant amounts or sources of income. The penalties are calculated in the same way as for companies.

Health and Social Security

HEALTH INSURANCE

- Contributions are generally 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 a 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 insurance contributions:
  - those with permanent residence in the Slovak Republic, but who have an employment contract with a foreign entity, and are also insured in that country; and
  - those individuals staying abroad for more than six months and who are insured in the other country.
- The computation base for calculating contributions is the taxable income received, plus certain benefits provided by the employer. The minimum monthly base is the official minimum monthly salary (currently SKK 6,500). The maximum monthly base is currently SKK 43,095, which is three times the official Slovak average salary.
- 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. An entrepreneur pays both the employee's and the employer's contributions, i.e. 14% of the computation base.
- The regular monthly contributions to the health insurance system are treated as advance payments, and are subject to an annual health insurance contributions reconciliation.
- Health insurance contributions cover the state healthcare expenses of the individual paying the contributions.
- Individuals can choose the company to which they will pay health insurance contributions.
- From 1 May 2004 the EU rules for health insurance apply in the Slovak Republic. These affect the country in which an EU national is liable to pay health insurance contributions, if he lives and / or works in more than one country.

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 activities for a Slovak employer in the Slovak Republic; and
  - an individual carrying out entrepreneurial activities in the Slovak Republic, 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.
- Contributions for each category 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 base is the official minimum monthly salary (SKK 6,500 as of 1 January 2005), whilst the maximum is three times the official average monthly salary, for the following categories:
  - retirement and permanent disability insurance;
  - unemployment insurance; and
  - reserve fund contributions.
- The minimum monthly contribution base is the official minimum monthly salary, whilst the maximum is 1.5 times the official average monthly salary, for the following categories:
  - sickness; and
  - guaranteed insurance contributions.
- The average monthly salary that applies for the period from 1 July 2004 to 30 June 2005 is SKK 14,365, which is the 2003 average monthly salary. From 1 July 2005, the 2004 average monthly salary will apply. This amount should be announced by 30 April 2005.

	Employee	
	Rate	Maximum monthly contribution in the period to 30 June 2005 (SKK)
Sickness	1.4 %	302
Retirement Permanent disability	4% 3%	1,724 1,293
Unemployment	1%	431
Health	4%	1,724
Guaranteed fund	-	-
Reserve fund	-	-
Total	**13.4%**	**5,474**

- The retirement insurance rate can be decreased by 0.5% for each dependent child that the individual has.

	Employer	
	Rate	Maximum monthly contribution in the period to 30 June 2005 (SKK)
Sickness	1.4 %	302
Retirement Permanent disability	14% 3%	6,034 1,293
Unemployment	1%	431
Health	10%	4,310
Guaranteed fund	0,25%	54
Reserve fund	4,75%	2,048
Total	**34.4%**	**14,472**

- In addition to these contributions, the employer must make injury insurance contributions of 0.8% of employee remuneration, with no maximum ceiling.
- An individual paying contributions to the social insurance company can claim the following state benefits on meeting the necessary conditions: sickness, nursing, maternity, old-age pension, invalidity pension, surviving partner pension, injury compensation, unemployment allowance, and others.
- Since 1 May 2004 the EU rules for social security apply in the Slovak Republic. These affect the country in which an EU national is liable to pay social insurance contributions, if he lives and / or works in more than one country.

The second pillar's principles

- The system of old-age pension savings will be financed from contributions paid to personal retirement accounts.
- Individuals not making retirement insurance contributions before 1 January 2005 will have to start to contribute to the second pillar. They must decide by 30 June 2006.
- Other individuals are able to choose whether they want to participate in the second retirement insurance pillar. However, unless they save for at least 10 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 14% to 5% of the computation base. The difference will be the employer's contribution to the individual's personal retirement account.
- The computation base for contributions to personal retirement accounts is the same as that for retirement insurance under the first pillar (see above).
- Under the old-age pension savings system, each citizen is 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 differ in their rate of return and risk. Each employee is able to select a particular fund.
- Regular, early and surviving partner pensions will be paid from old-age retirement savings.

Tax-efficient investments for individuals

STATE-SUBSIDISED SUPPLEMENTARY PENSION INSURANCE

- In addition to the compulsory pension schemes, 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 Slovak withholding tax 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 tax-deductible for corporate income tax purposes.

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 rate is 19 %.

TAX BASE

- The tax base is generally the accounting result, as adjusted for tax purposes. The matching principle must be followed.
- Branches and permanent establishments may agree with the tax authority to use an alternative method of calculating their Slovak tax liability, if it is impractical to use the standard method.
- The tax base can be increased by the difference in prices charged between two foreign related parties compared to those that would be charged between independent parties.
- Capital gains from the disposal of assets are included in the corporate income tax base.

NOT SUBJECT TO TAX

- Dividends paid out of after tax 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.

INCOME EXEMPT FROM TAXATION

- Yields of state bonds.
- Interest and other income from loans, bonds, etc. paid by Slovak tax residents (legal entities) to related EU entities, which are the beneficial owners of such income, provided certain ownership conditions have been met for a period of at least two years preceding the date when the interest is paid.
- Interest paid by the Treasury.
- Royalty payments made to related EU entities are exempt from Slovak taxation as from 1 May 2006, provided certain conditions are met.

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 the 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, according to the technical documentation of the car.
- 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 carries 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.
- Royalties and service fees.
- The tax written down value of assets sold or liquidated.
- The purchase price of securities sold, up to the amount of income from their sale, provided certain conditions are met.
- The creation of reserves for goods and services provided in

the current year, where the invoice has not been received; reserves for costs of unused staff holidays (including statutory employer's social insurance contributions); reserves for bonuses and premiums; and reserves for audit services and the costs of preparing the tax return for the current year.

- 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, if certain conditions are met.
- Additional retirement contributions that the employer pays for his employees, based on pension insurance law.
- Tax depreciation or leasing payments for personal cars, regardless of the acquisition value.
- Financial leasing fees, if the leasing period is at least 60% of the depreciation period that would apply to 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 100% provision against it, 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 voluntary contribution to an association (legal entity) for membership in that association - up to the lower of SKK 2 million or 0.5 per mille of the entity's taxable income.
- Reserves of insurance companies for non-life insurance created under the Act on Insurance Companies.
- Bad-debt provisions against insurance premiums receivable, up to 100% of the receivables' value, if the policy is cancelled.

Cash basis costs/income

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

TAX NON-DEDUCTIBLE ITEMS

- The tax law restricts the tax deductibility of certain expenses. Generally, these are expenses not related to

generating taxable income. The following expenses are tax non-deductible:

- Dividends, including those paid to statutory representatives.
- Expenses above statutory limits (such as travel expenses).
- Representational (entertaining) expenses and promotional products with a value over SKK 500.
- Gifts and donations.
- Expenses related to non-taxable income.
- Accounting provisions and accounting reserves (with the exceptions outlined above).
- 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 other taxpayers.
- Losses realised on the sale of land.

DONATIONS

- A taxpayer can donate up to 2% of the tax liability paid to a qualifying company of his choice, by submitting a form stating the name of the recipient company to the relevant tax office.

DIVIDENDS

- Dividends paid out of after tax profits generated after 1 January 2004 are not subject to Slovak tax, regardless of whether the recipient or payer is EU-resident or not, or the share of the parent in the subsidiary.
- Dividends from profits generated before 2004, and paid to Slovak recipients in 2004 or later, are taxed at 19%. However, such income is not taxable if the dividends are paid after 1 May 2004 by EU-resident companies to Slovak tax residents who have at least a 25% direct stake in the share capital of the paying company.
- Dividends paid by Slovak companies after 1 April 2004 to Slovak tax non-residents from taxed profits generated before 1 January 2004 are subject to 19% Slovak withholding tax, unless the recipient company is EU-resident and has at least a 25% direct stake in the share capital of the Slovak subsidiary when the dividends are paid. In other cases, an applicable double taxation treaty may also reduce the rate of withholding tax.
- Provisions and dividends may not be paid out by a Slovak company until after the accounts are completed and

a General Meeting of Shareholders has approved them. Slovak law does not permit the payment of interim dividends.

INTEREST

- Interest, including interest from foreign related party loans, is normally fully tax deductible.
- For Slovak transfer pricing purposes, the interest charged between a Slovak entity and a foreign related party must be at a similar level to that which would apply between related parties under similar conditions (see below).
- Interest on the acquisition of fixed assets cannot be capitalised.
- From 1 January 2005, interest paid by a Slovak tax resident to a Slovak tax non-resident is subject to domestic withholding tax of 19% rather than to a tax securement charge. This withholding tax may be reduced by an applicable double tax treaty, or by the EU Interest and Royalties Directive.

RELATED PARTY TRANSACTIONS

- Prices between a Slovak entity and its 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 transactions between Slovak and foreign related parties, and there is insufficient documented justification for the difference.

THIN CAPITALISATION

- The thin-capitalisation rules were abolished as of 1 January 2004. The entire amount of interest paid to related parties is tax deductible, provided that interest rates are arm's length, and the loan is used for generating, maintaining and ensuring the income of the Slovak entity.

FOREIGN EXCHANGE DIFFERENCES

- Foreign exchange differences booked through the profit and loss account arising from the revaluation of unrealised receivables and payables as at the day of the statutory close of accounts can be excluded from the taxpayer's tax base provided the taxpayer notifies the tax authorities about this before the beginning of the tax period in which it intends to exclude these unrealised foreign exchange differences. Foreign exchange differences arising from revaluation of other assets and liabilities as at the day of the statutory close of accounts are always part of the tax base.

TAX LOSSES

- A 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 expenditure incurred on tangible and intangible fixed assets.
- Intangible fixed assets must be depreciated within five years from the time they are put into use for accounting purposes. The tax depreciation equals the accounting depreciation.
- Some types of assets are excluded from depreciation, such as land, 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 equipment, most production line equipment, TV and radio receivers
3	12	Houses and buildings made of metal, turbines, air conditioning, ships
4	20	Buildings of a permanent nature

- 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 the total tax depreciation available.
- A lessee can depreciate a tangible fixed asset held under a financial lease. In this case, the depreciation period equals the leasing period, the depreciation base equals the amount of the principal recognised in the accounts of 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 (and tax) year from a calendar year to a different twelve-month fiscal year, provided they obtain the consent of the tax authorities.
- The deadline for submitting the corporate tax return is within three months of the end of the tax period.

TAX SECUREMENT

- If a 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 standard tax rate. This tax securement seeks to ensure that the foreign entity does not avoid its Slovak corporate tax liability.
- If the foreign entity registers for Slovak corporate tax purposes and pays monthly corporate tax advances in Slovakia, it may be able to agree with the Slovak tax authorities that tax securements do not have to be withheld.

Securities

CAPITAL GAINS

- A profit on the disposal of securities (sales proceeds less acquisition price) is included in the general corporate income tax base.
- A loss on the disposal of securities is tax deductible in the following cases:
  - The taxpayer made an overall profit from the sale of securities and shares during the tax year.
  - The selling price of securities is not more than 10% lower than the average selling price on the stock exchange on the day of the sale, and the purchase price was not more than 10% higher than the average market price on the stock exchange on 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 the state authorities to trade securities.
- The above tax deductible cases do not apply to the sale of shares in a limited liability company or cooperative.
- Securities (except for those held to maturity) should be revalued annually 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 included in the tax base.

TAX NON-RESIDENTS

- The sale of a share in a Slovak entity by a Slovak tax non-resident is subject to Slovak tax of 19%, subject to the provisions of an applicable double tax treaty.
- If a non-Slovak resident company sells a share in a Slovak entity to a Slovak tax resident, the income from the sale is regarded as Slovak-source income, and the payer must withhold a 19% securement tax.

INCOME FROM SECURITIES

Dividend income

- Dividends related to after tax profits earned on or after 1 January 2004 (including liquidation surpluses, settlement amounts paid to shareholders, and dividends paid from abroad) are not subject to Slovak corporate income tax. For more information on the taxation of dividends, please see pages 18 - 19.

Interest income

- Interest income from securities is subject to 19% tax. 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 of 19%, or at a lower rate specified in an applicable double taxation treaty.
- Income from government bonds issued in a foreign currency on or before 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 its 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.

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 that an independent entity (eg a Slovak company) would achieve from carrying out similar activities under similar conditions. If the branch's tax base cannot be assessed based on its income less costs, as adjusted for tax purposes, certain other methods can be used. A taxpayer may ask the tax authorities in writing to approve the method for determining the branch's tax base. If the tax authorities grant their approval, the taxpayer should apply this method over at least one tax period.
- A branch has the same tax registration, filing, payment, and advance payment obligations as a Slovak company.

PERMANENT ESTABLISHMENT (PE)

- A PE is not necessarily a legal entity, but is a taxable entity in Slovakia.
- It is created by:
    - A permanent place or facility that is used either constantly or repeatedly, through which the foreign company carries out business activities in Slovakia;
    - an activity, place or facility through which a foreign company provides services in Slovakia for more than six

months in any 12 consecutive months; or
  - a person who acts on behalf of the foreign company and repeatedly concludes contracts on its behalf.
- 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 tax registration, filing, payment, and advance payment obligations as a Slovak company.

TAX SECUREMENT

- Individuals or entities may have to deduct taxes from payments made to foreign taxpayers who have Slovak-source income.
- In such cases, when paying, transferring, or crediting an amount to a foreign entity, the taxpayer must withhold a 19% tax securement.
- It is not necessary to withhold a tax securement if the payment is made to a foreign entity that pays Slovak corporate income tax advances, and the tax authorities have confirmed that tax securements are not required.
- In addition, the Tax Office may reduce the tax securement rate.

WITHHOLDING TAX

- The following payments are subject to withholding tax when made by Slovak companies to foreign parties. However, a double taxation treaty may reduce the rate (see the appendix for specific rates for each country):

Management fees for services provided in the Slovak Republic*	19%
Royalties**	19%
Interest on loans and deposits***	19%
Dividends	Not subject to tax

* Please see the section "Tax Securements" above.
** Royalties paid to EU-resident related companies on or after 1 May 2006 are not subject to withholding tax, provided certain conditions are met.
*** Interest paid to EU resident companies is not subject to withholding tax, provided certain conditions are met.

- Dividends paid out of after tax profits arising in 2004 and later years are not subject to withholding tax.
- The tax should be paid to the Tax Office no later than 15 days from the end of the calendar month following that in

which the payment was made.
- The withholding obligation lies with the Slovak tax resident payer. 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 Slovakia.

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 date 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 different twelve-month fiscal year, the taxpayer must notify the Tax Office at least 15 days before the suggested starting date of the fiscal year.

FILING

- Corporate tax returns must be filed within three months following the end of the tax period.
- A three-month extension to the filing deadline can be requested. However, the granting of this extension is at the discretion of the Tax Office.
- The tax administrator may, on 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 in the first month of the following tax period. However, until the date of filing the corporate income tax return for the current tax period, the tax advances are assessed based on the tax charge for the previous tax period.
- Advances are payable:
  - quarterly (1/4 of the last known tax liability), if the last known tax liability was between SKK 50,000 and SKK 500,000; or
  - monthly (1/12th of the last known tax liability), if the last known tax liability exceeded SKK 500,000.
- On 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 on request, or can be credited against future tax liabilities.

ASSESSMENT

- A tax may not normally be assessed or additionally assessed more than five years after the end of the year during which the obligation to file a tax return arose, or during which the taxpayer was obliged to pay the tax.
- If an action directed at the assessment of a tax or an additional tax (e.g. a tax inspection) is undertaken within this five-year period, another five-year period commences from the end of the year in which the taxpayer was notified of this action.
- However, tax may be assessed or additionally assessed no later than ten years after the end of the year during which the tax liability arose or during which the taxpayer was obliged to pay the tax.

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:
  - tax is under-declared in a tax return or is increased by an additional 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 three times the National Bank of Slovakia's basic interest rate multiplied by the difference in tax between that shown in the tax return and that determined by the tax administrator. If the taxpayer files an additional tax return voluntarily, the penalty is halved.
- Failure to comply with non-monetary obligations, such as late tax registration, may result in fines that can be imposed more than once, up to a total of SKK 2 million.
- If the taxpayer does not submit a tax return on time, there will be a penalty of up to SKK 1.5 million.
- The tax office will not impose a penalty that is less than SKK 500.
- In addition to penalties, the tax administrator can impose late payment interest of four times the National Bank of Slovakia's basic interest rate multiplied by the amount of overdue tax, for each day of late payment.
- The tax administrator must pay interest if it fails to refund a tax overpayment on time, or otherwise holds back the funds of the taxpayer without reason.

TAX CREDIT AND INVESTMENT INCENTIVES

Investment Incentives Available

- The following investment incentives, all of which are treated as state aid, are potentially available:
  - corporate tax credits;
  - financial support for creating jobs; and
  - financial support for retraining employees.
- In addition, support from local municipalities may also be granted to major investment projects in the form of, for example, reduced land prices and the building of necessary infrastructure.

Conditions to be met under the Investment Incentives Act

- A company must satisfy the following criteria to be eligible to apply for any of the above incentives:
  - Establish a new operation or modernise existing production facilities.
  - Invest at least SKK 400 million in 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. However, 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 the beginning of 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 income must be generated from the business activities set out in the application for investment incentives.

Tax credit

- Currently there are four types of tax credits available for corporate entities in the Slovak Republic. They reduce the tax charge by up to 100% for up to ten years.
- Tax credits are a form of state aid, and various conditions must be met for a company to be eligible for this. In addition, the state aid must be approved by various authorities, and its granting is discretionary.

Financial support for creating jobs and retraining employees

- For a maximum of two years, a company can receive a contribution for employing a “disadvantaged” employment candidate (such as a long term unemployed person, a graduate, or a disabled person). The contributions are paid monthly.
- An employer can also ask for subsidies to cover up to 90% of the costs of training provided to employees. The actual amount of subsidy is subject to agreement with the local Labour Office. The training must be provided by certain approved entities.

Other Taxes

Value-Added Tax

- Significant amendments to the VAT Act came into effect on 1 January 2005.

VAT REGISTRATION

- The VAT registration threshold for taxable entities with their seat, place of business, or permanent establishment in Slovakia, is turnover of SKK 1.5 million (approximately EUR 37,500) 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 is obligatory, if:
  - a legal entity or individual acquires a registered business or part of such a 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 goods supplied reaches SKK 1.5 million (approximately EUR 37,500) 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 10,500) or more in a calendar year.
- Voluntary VAT registration should also be available 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.
- The Tax Office is obliged to issue a VAT registration certificate and VAT number to taxable persons, regardless of whether or not they are established in Slovakia, within seven days from the date a valid request for registration is received. A taxable person will become a Slovak VAT payer ("VAT payer") as of the date specified in the certificate which may not be later than 31 days after delivery of the request for registration.

CALL-OFF STOCK SIMPLIFICATION

- With effect from 1 January 2005, a simplified call-off stock scheme was introduced in Slovakia, which is similar to that in some other EU countries. The simplification applies where a foreign person registered for VAT in another EU country transports or dispatches goods from another EU country to Slovakia, and stores them in Slovakia in order to supply them to one VAT payer only. If the foreign person meets all the requirements for applying the call-off stock regime, it does not have to register for Slovak VAT.
- In this case, the single customer will instead have to pay the VAT, since this is considered an acquisition of the goods in Slovakia by the single customer.

VAT DE-REGISTRATION

- A registered VAT payer can de-register in the following cases:
  - If the VAT payer stops his business activities.
  - If a 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 at least one year, and provided that its taxable turnover in the last 12 calendar months did not reach SKK 1.5 million (approximately EUR 37,500).
  - A foreign entity that makes long-distance sales to Slovakia can ask to be de-registered after one year of VAT registration, provided that the total value of the goods supplied will not reach SKK 1.5 million in the calendar year of de-registration, 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 for a total value of SKK 420,000 (approximately EUR 10,500) or more in the relevant calendar year, and also did not reach this threshold in the previous calendar year.
  - If there are no valid reasons for continued registration, or the VAT payer applies for de-registration and meets the necessary conditions, the tax authorities are obliged to cancel the registration.
- The tax authorities determine the last VAT period, and the VAT payer must return the original Certificate with its VAT identification number within 10 days from the end of its last VAT period.

VAT RATES

- A single VAT rate of 19% applies to all taxable supplies.

EXEMPT SUPPLIES

- Exempt supplies without credit entitlement 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 (with some exceptions), and lottery services. Other VAT-exempt transactions without credit entitlement include:
  - Services supplied to certain organisations (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.
- Exempt taxable supplies with credit entitlement include the following:
  - The intra-community supply of goods.
  - Specific intra-community acquisitions.
  - Triangulation transactions.
  - Specific transport services.
  - The export of goods outside 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.

TAX REPRESENTATIVE FOR THE IMPORT OF GOODS

- The import of goods dispatched or transported from a non-EU country, where this dispatch or transport ends in another EU country, can be VAT exempt, provided that certain conditions are met.
- If the importer is a foreign person and is not a Slovak VAT payer, a tax representative can represent him in Slovakia for the purpose of claiming an exemption from VAT if the following conditions are met:
  - The tax representative may only be a Slovak VAT payer with his seat in Slovakia.
  - The importer must give the representative a notarised power of attorney to represent him.

- The representative must obtain an identification number from the Tax Office Bratislava I for the purposes of acting on behalf of the importer.

- The foreign person does not have to register for Slovak VAT purposes provided he meets certain conditions under the Slovak VAT Act.

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 has been paid (when goods are imported).
- Where a VAT payer receives services with their place of supply in Slovakia, or goods with installation and assembly, from a foreign supplier where he is obliged to "pay" output VAT, he may deduct the related input VAT. For claiming the VAT, it is sufficient for the VAT to be recorded in detailed records on goods and services supplied and received. The VAT payer should deduct the VAT in the tax period in which he records it in these records.
- 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 activities 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 mainly 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 Group 3 cases, the VAT payer must adjust its VAT reclaim by a coefficient determined by the ratio of the amount of taxable supplies (Group 1) tp the total amount of supplies (including VAT-exempt supplies).

- The ability to make an adjustment to VAT reclaims related to the purchase of tangible and intangible assets if their use has changed from one group to another is limited to five years from the date of acquisition.
- The ability to make an adjustment to VAT reclaims on purchases of real estate is limited to ten years after the date of acquisition.

IRRECOVERABLE VAT

- VAT incurred on the following is always irrecoverable 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 administers.
- 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 taxable supplies provided and received 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. Supplies received must be further allocated into one of the three groups outlined 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 with turnover below SKK 10 million 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 by the filing deadline.

VAT REFUNDS

VAT refund for Slovak VAT payers

- A VAT payer is not immediately entitled to a cash VAT refund if its VAT return shows a net input VAT credit. Instead the input VAT credit should be carried forward and offset against future VAT liabilities. 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, or a similar general consumption tax, abroad, is entitled to claim a refund of Slovak VAT paid on 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 the entity's/individual's business conducted outside Slovakia.
  - During the period for which the entity/individual filed a VAT refund request, it did not sell any goods or provide any services in Slovakia except for certain specific supplies of goods and provision of services stipulated in the Slovak VAT Act (e.g. transport services and related ancillary services that are VAT exempt, or the supply of oil and gas under specific conditions).
- The VAT refund can be claimed by submitting a request to the Tax Office Bratislava I, provided the VAT paid for 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 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 date 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, i.e. if the entity's country of residence refunds VAT to Slovak entities.

VAT refund to individuals exporting goods

- An individual who has no permanent or temporary residence permit in an EU country and who exports any goods except for 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;
  - the export of goods is carried out within three months from the date the goods were purchased; and
  - the Customs Office certifies the export of the goods.

Excise taxes

- The tax suspension arrangement is effective for all the products subject to excise tax from 1 May 2004. This means that the tax liability is postponed until the day the product is released into the free circulation regime.
- All of the Excise Taxes Acts were amended during 2004.

PRODUCTS LIABLE TO EXCISE TAXES

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

AUTHORIZED ENTITIES

- The production, storage, receipt and sending of products under the tax suspension arrangement is carried out by an authorized warehouse keeper.
- An authorized consignee is an entity that is not a warehouse keeper, but that regularly or occasionally receives an excise product under the tax suspension arrangement from another EU-member state.
- The tax trustee is authorized to facilitate the supply of products, on behalf of a warehouse keeper with its registered office in another EU-member state, to Slovak customers who are not authorized warehouse keepers. 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 products subject to excise tax under the suspension arrangement must register with the Customs Office and pay the necessary guarantee before authorization will be 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 a licence or authorization if the conditions under the Excise Taxes Acts are not met, or no supplies were carried out in the last 12 months, or for other 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
Liquified gas carbohydrates:	
Used as fuel	SKK 7,800/1,000 kg
Used as a combustible	SKK 0/1,000 kg
Natural gas:	
Used as fuel	SKK 100/GJ
Used as a combustible	SKK 0/GJ
Beer	
Basic rate	SKK 50/degree Plato/hl
Reduced 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
Reduced rate	SKK 12,500/hl of 100% ethyl alcohol
Tobacco products	
Tobacco	SKK 1,350/kg
Cigars	SKK 1.40/piece
Cigarettes (combined rate):	
Fixed part	SKK 0.91/piece
Percentage part	20% of the price of the consumer package mentioned on the control check-mark. Minimum rate is SKK 1.40/piece

- The reduce rate for beer applies to beer produced by a small, independent brewery, or to beer imported from another EU-member state if it was produced in a small, independent brewery.
- The reduced 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.
- The minimum rate for cigarettes is used when the sum of the fixed and percentage parts is lower than the minimum rate.

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 in small amounts by an individual for non-business purposes.
- For wine, beer and spirits, there are also exemptions for:
  - the production of vinegar;
  - the production of aromatic substances used in the food industry (with up to 1.2% of alcohol);
  - the production of food products and semi-finished products (with 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 purposes other than 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.
- An authorized warehouse keeper can sell beer, tobacco products, spirits and wine without excise tax to foreign persons qualifying for privileges and immunities under international treaties, provided they have obtained a licence from the Customs Office for the purchase of exempt products.

LONG-DISTANCE SALES

- Long-distance sales can be used to supply a product that is already released into 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 liable for the tax.
- The supplier must inform the customs authorities about the supply.
- The customer cannot be a warehouse keeper or authorized consignee.

EXCISE TAX COMPLIANCE

- All excise taxes are administrated by the Customs Offices.
- The taxable period is a calendar month.
- Monthly excise tax returns must be filed within 25 days of the end of the taxable period, and excise tax liabilities must be paid within this period.
- 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 goods received, e.g. mineral oil, to the tax authorities, who keep the fourth copy and return the third copy to the supplier through the customer.
- A simplified accompanying 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.
- 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 on each sale document must cost more than SKK 2,000 (this limit does not apply to excise tax on mineral oil).

Vehicle Tax

- The Act on Road Tax has been replaced by the Act on Local Taxes, which became effective on 1 November 2004.
- Based on this new Act, each Self-governing Region may decide on the tax rate in its General Binding Resolution. Vehicle Tax is paid to the tax authority in the place where the vehicle is registered.
- Taxable vehicles are those registered in the Slovak Republic or abroad and used for business purposes in the Slovak Republic.
- The Self-governing Region may decide by a General Binding Regulation that the following vehicles are exempt:
  - public emergency and rescue vehicles;
  - vehicles used for public transport;
  - vehicles registered in the Slovak Republic that are used abroad during the entire tax period.
  - vehicles that do not use the highways or category I, II or III roads during the entire tax period;
  - vehicles that are exclusively in agricultural and forest production, that are using the roads only for crossing from one place to another;
- 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 in certain other circumstances.
- Tax rates are set:
  - for passenger cars - depending on engine capacity;
  - for other vehicles, such as delivery vans, lorries, trucks and trailers depending on the number of axles and the vehicle's weight.
- 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.
- The proportion of the vehicle's usage for business purposes throughout the tax period has no effect on the amount of the tax liability.

Property Tax

- The Real Estate Tax Act has been replaced by the Act on Local Taxes and a new property tax has been introduced.

The property tax is divided into:
- Land tax
- Building tax
- Tax on apartments

LAND TAX

- Is generally payable by the registered owner of land, or the custodian of land that is owned by the state, or the lessee, if the lease lasts for over 5 years and the lessee is registered in the Cadastral Register or leases land administrated by the Slovak land Fund.
- If ownership cannot be determined, the tax is payable by the user of the land.
- The taxable period is the calendar year.
- The taxpayer is obliged in the transitional period (2005), to file the tax return for 2005 by the 28 February 2005. The Tax Administrator will issue the tax assessment by 30 September 2005.
- In subsequent years, 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 that year
- The Municipality may allow the tax to be paid in instalments. The first instalment is payable by 31 March.
- The basic tax rate is 0,25% of the tax base, but this may be changed by the Municipality, and different rates can apply to different types of land.

BUILDING TAX

- Is generally payable by the registered owner of the building, or the custodian of a building owned by the state.
- The basic tax rate is SKK 1 for each square metre of occupied by the finished building.
- The tax rate can be changed by the Municipality issuing a General Binding Regulation.
- For 2005, the taxpayer must file the tax return (for the year 2005) by 28 February 2005. The Tax Administrator will issue the tax assessment by 30 September 2005.
- In subsequent years, 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 that year , taking into account the taxpayer's status as of 1 January of that year.

TAX ON APARTMENTS

- Is generally payable by the registered owner of an apartment.
- The basic annual tax rate is SKK 1 for every square metre of floor area of the apartment.
- The tax rate can be changed by the Municipality issuing a General Binding Regulation.
- The 2005 tax return must be submitted by 28 February 2005. The Tax Administrator will issue the tax assessment by 30 September 2005.
- In subsequent years, 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 that year, taking into account the taxpayer's status as of 1 January of that year.

Inheritance Tax, Gift Tax, and real estate transfer Tax

- Inheritance tax and gift tax were abolished from 1 January 2004.
- Real estate transfer tax was abolished from 1 January 2005.

Appendix

THE LIST OF COUNTRIES THAT RATIFIED THE DOUBLE TAX TREATY WITH THE SLOVAK REPUBLIC AS AT 31 JANUARY 2005

	Recipient		Interest (%)		Rozalties (%)	
1	Australia	157/2000	10		10	
2	Austria	48/1979	0		0/5	(1)
3	Belgium	354/2002	0/10	(2a)	5	
4	Belarus	112/2001	0/10	(3)	5/10	(1)
5	Bulgaria	287/2001	0/10	(3)	10	(6)
6	Brazil	200/1991	0/10/15	(2) (3)	15/25	(1b)
7	Canada	369/2002	0/10	(14)	0/10	(1)
8	China, P.R.	41/1988	0/10	(4)	10	
9	Croatia	220/1997	10		10	
10	Cyprus	30/1981	0/10	(3)	0/5	(1)
11	Czech Republic	238/2003	0		0/10	(1)
12	Denmark	53/1983	0		0/5	(1)
13	Finland	207/2001	0		0/1/5/10	(8)
14	France	73/1975	0		0/5	(1)
15	Germany	18/1984	0		5	
16	Greece	98/1989	0/10	(3)	0/10	(1)
17	Hungary	80/1996	0		10	
18	Iceland	225/2003	0		10	
19	India	77/1987	0/15	(4)	30	
20	Indonesia	12/2002	0/10	(3)	10/15	(5)
21	Ireland	365/2000	0		0/10	(1)
22	Israel	327/2000	2/5/10	(9)	5	
23	Italy	17/1985	0		0/5	(1)
24	Japan	46/1979	0/10	(4)	0/10	(1)
25	Korea	244/2003	0/10	(4) (11)	0/10	(1)
26	Luxembourg	227/1993	0		0/10	(1)
27	Latvia	317/2000	0/10	(4)	10	
28	Lithuania	756/2002	0/10	(4)	10	
29	Malta	318/2000	0		5	
30	Mongolia	30/1979, 49/1979	0		0	
31	Netherlands	138/1974	0		5	
32	Nigeria	339/1991	0/15	(3)	10	
33	Norway	35/1980	0		0/5	(1)
34	Poland	95/1996	0/10	(4)	5	
35	Portugal	11/2005	10		10	
36	Romania	105/1996	0/10	(4)	10/15	(1a)
37	Russia	31/1998	0		10	
38	Slovenia	386/2004	10		10	
39	South Africa	39/2001	0		10	
40	Spain	23/1982	0		0/5	(13)
41	Sri Lanka	132/1979	0/10	(12)	0/10	(1)
42	Sweden	9/1981	0		0/5	(13)
43	Switzerland	127/1998	0/10	(7) (11)	0/5/10	(1) (10)
44	Tunisia	419/1992	0/12	(3)	5/15	(1)
45	Turkmenistan	100/1999	0/10	(3)	10	
46	Turkey	90/2000	0/10	(3)	10	
47	Ukraine	173/1997	10		10	
48	United Kingdom & North Ireland	89/1992	0		0/10	(1)
49	United States	74/1994	0		0/10	(1)
50	Uzbekistan	444/2003	10		10	
51	Serbia and Montenegro (Yugoslavia)	269/2002	10		10	
52	Macedonia, Bosna and Herzegovina	99/1983	0		10	

The numbers in parentheses refer to the notes below:

1. The lower rate applies to cultural royalties.
1a. The rate of 10% applies to royalties in respect of the use of trademarks, patents or know-how. The higher applies in any other cases.
1b. The rate of 25% applies to royalties in respect of the use of trademarks. The lower applies in any other cases.
2. The lower rate applies to interest on loans and credits granted by a bank for at least ten years in connection with the selling of industrial equipment; with the study, installation or furnishing of industrial or scientific units; or with public works.
2a. 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 local authority thereof.
3. The zero rate applies if the interest is received by the government /the central bank/other state institutions (see respective treaty for exact wording).
4. The zero rate applies if the interest is received by the government or the central bank or other state institutions, OR if the receivables on which the interest is paid are quaranteed/ financed/indirectly financed by the government/governmental institutions (see respective treaty for exact wording).
5. The rate of 10% applies to royalties in respect of cinematography/TV broadcasting/radio broadcasting as well as giving up of any rights related to royalties. The higher rate applies in any other cases.
6. This rate applies also to payment for services.
7. Withholding tax reduced to nil on bank loans.
8. The zero rate applies to copyrights, 1% applies to finance lease of equipments, 5% applies to equipments rental and royalties in respect of software/ cinematography/TV and radio broadcasting, 10% applies to payments in respect of the use of trademarks and know-how.
9. The rate of 2% applies to state bonds and obligations, and loans insured or guaranteed by the National Bank of Slovakia/Israel, Slovak Society for Insurance of Foreign Credits and Loans, or Israel Society for Insurance of Foreign Trade; 5% applies if interest is received by a financial institution (in common business activities); 10% applies in all other cases.
10. Slovakia can apply the rate of 5% to royalties in respect of the use of trademarks, patents or know-how paid from Switzerland to Slovakia, if Switzerland doesn't apply the 10% rate.
11. The zero rate also applies to interest on loans and credits in connection with sale of industrial, business or scientific equipment, or with sale of goods.
12. The zero rate applies if the interest received is related to loans (monetary or non-monetary) provided to the government of the other contracting state corporation or any other institution with state shareholding or to loans provided to a bank institution under a governmental approval.
13. The zero rate applies to copyrights.
14. The zero rate applies to interest received by a resident of one state in respect of indebtedness of the other state government or political subdivision/local authority, OR in respect of a loan made/guaranteed by the other state government in respect of imports/exports.

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