Pocket Tax Book

Slovakia, 2007

PRICEWATERHOUSECOOPERS

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The Slovak Pocket Tax Book 2007

Slovak Republic

This booklet is based on taxation law as at 31 January 2007. 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.
  - Income paid by a Slovak company (or Slovak permanent establishment of a foreign company) for performing a statutory representative function of company.
  - 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, but only 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 are 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, school fees, utility costs, or private health insurance)
  - **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
    - Actual fuel costs paid by the employer for an employee's private use.

- Reimbursement of business **travel expenses** in excess of statutory limits (currently SKK 6.20 per kilometre for the employee using his own car for a business trip).
- **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 89
  - 12-18 hours SKK 135
  - over 18 hours SKK 208

  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, the first taxable event for an individual is the first day on which an option granted could be exercised.
  - The taxable income is the difference between the market price of the shares on the first day on which the option could be exercised, and the price to be paid by the employee for the share, decreased by the price paid for the share option (if any).
  - The employer withholds the tax through payroll
  - The sale of shares is also taxable income.
- **Contributions and insurance premiums** that employers pay to pension plans, health insurance plans and life insurance schemes on behalf of employees, 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 purposes. However, entrepreneurs who are not VAT payers can either deduct expenses actually incurred, or take a flat 40% deduction from the total income (60% deduction for some specific types of 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.

Rental income

- Taxable rental income includes income from leasing or renting out real estate.
- The taxable income is the rental income less related tax-deductible expenses, for example depreciation costs (the tax depreciation period for buildings of a permanent nature is 20 years), 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 40% of the rental income.

Investment income

- Taxable investment income includes interest, winnings, 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 for a Slovak tax resident.
- The withholding tax may be reduced under double taxation treaties for individuals who are not Slovak tax residents.

Dividend income

- Dividend income from 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 period of time:
  - Flats and houses used as the taxpayer's permanent residence — 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 tax period in which the sale occurred; and
    - if listed securities were acquired before 1 January 2004 and had been 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 activities in the following five years.
- Generally, necessary expenses incurred to generate, ensure and maintain taxable income are deductible from that income. However, from employment income, only compulsory social security and health insurance contributions paid by the employee can be deducted.

Personal allowances

- Generally, a personal allowance of 19.2 times the minimum subsistence amount valid on 1 January each year is available to all individuals. For 2007, the annual personal allowance is SKK 95,616. However, individuals whose tax base for 2007 is higher than SKK 498,000 (calculated as 100 times the minimum subsistence level), cannot apply the entire non-taxable personal allowance. Their personal allowance will be progressively reduced to nil, based on a formula, so that those with an annual tax base over SKK 880,464 in 2007 are not entitled to any personal allowance. This reduction should be made in the year-end payroll reconciliation or on filing a personal income tax return.
- A dependent spouse allowance of up to 19.2 times the minimum subsistence amount can also be claimed by an individual with permanent residence in Slovakia whose spouse does not have income in excess of the allowance amount (SKK 95,616 for 2007). The spouse allowance is the difference between SKK 95,616 and the spouse's actual income. However, if the individual's tax base is higher than SKK 880,464, the available spouse allowance is progressively reduced, based on a formula, so that those with an annual tax base over SKK 1,262,928 in 2007 are not entitled to any spouse allowance.
- A dependant spouse allowance is available only to individuals who are Slovak tax residents.

Tax bonus

- A tax bonus of SKK 6,480 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 (currently SKK 7,600 per month). The tax bonus decreases the tax liability. It is only available to Slovak tax residents 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 are taxed abroad;
  - all employees of a Slovak branch or permanent establishment of a foreign company (with the exception of employees who only carry out services in Slovakia), including expatriates employed by the head office and assigned to work for a branch; and
  - economic employees.
- The tax withheld must be paid 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 the correct payment of tax. Furthermore, if the employee only earns employment income from Slovak sources (and other income from Slovak sources that was taxed through a final withholding tax) during a calendar year, the employer must (if requested by the employee) produce an annual payroll tax reconciliation on the employee's behalf. In effect, this reconciliation statement functions as the employee's tax return.
- Leased (economic) employees should be on the Slovak company's payroll.
- A foreign company that employs people who are in the Slovak Republic for more than 183 days and / or has a permanent establishment in Slovakia should keep payroll for these people, unless they only provide services in Slovakia.

Tax registration

- All foreigners assigned to work in Slovakia must register for income tax purposes within 30 days of becoming subject to Slovak tax, unless they are on a Slovak payroll.

Tax returns

- Generally, anyone who is subject to Slovak personal income tax and whose taxable income for the year exceeds a certain amount (in 2007 it is SKK 47,808) must submit a personal income tax return, unless he has no income other than that which is taxed through a final withhold-

ing tax, is exempt from Slovak 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. An extension to the 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

- Advance payments must normally be made for tax on non-employment income not taxed through payroll or withholding tax on the following basis, unless the Tax Office agrees otherwise following a request by 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 50,000 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 50,000.
- If employment income comprises over 50% of the individual's taxable income, tax advances on income other than employment income 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.
- Individuals who receive employment income that is not taxed under Slovak payroll procedures (i.e. those employed outside Slovakia who carry out services in Slovakia) must calculate and pay monthly tax advances as follows:
  - The individual must inform the Slovak tax authorities that he receives employment income not taxed under payroll by the end of the month in which he first receives this income.
  - The tax advances must be calculated from the amount of employment income that is actually paid to the individual. The tax advance must be paid by the end of the calendar month following that in which the income was paid.

- The tax advances should generally be calculated in the same manner as the payroll tax advances of regular Slovak employees.

Penalties

- High penalties can be imposed for failing to file a tax return or pay taxes, or for doing so late, and for 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 are not insured in another EU or European Economic Area member state or in Switzerland, and who have an employment contract with a Slovak employer or with a foreign employer who has a Slovak permanent establishment; or
  - do not have permanent residence in the Slovak Republic, but are not insured in another EU or European Economic Area member state or Switzerland, and are carrying out entrepreneurial activity in the Slovak Republic.
- The following individuals with permanent residence in the Slovak Republic are exempt from paying health insurance contributions:
  - those who are employed abroad, and are also insured in that country;
  - those who are carrying out entrepreneurial activity abroad, and are also insured in that country;
  - those who stay abroad for more than six months and who are insured in the other country.
- An individual who has permanent residence in the Slovak Republic and is not obligatorily insured in the Slovak Republic and, at the same time, is not insured in another EU member state, can be insured in Slovakia on a voluntary basis.
- The base for calculating contributions is the taxable income received. The minimum monthly base is the official minimum monthly salary (currently SKK 7,600). The maximum monthly base is currently SKK 51,822, 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 for the yearly liability, and are subject to an annual health insurance contributions reconciliation that should be filed by 31 March of the year following the year for which the health

insurance advances were paid. However, the filing deadline for 2006 reconciliations has been extended to 30 June 2007.

- Health insurance contributions cover the state healthcare expenses of the individual paying the contributions.
- Individuals can choose the health insurance 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 EU country.
- Slovak individuals temporarily working in another EU member country should apply for a European Health Insurance Card ("EHIC") to confirm their health insurance paid in Slovakia.
- An EHIC enables individuals temporarily working abroad (and their family members) to continue being covered by the Slovak health insurance system during their stay abroad. However, Slovak health insurance will only cover basic health treatment abroad.
- For Slovak expatriates and their family members to receive full (rather than only basic) medical treatment abroad, they should apply for an E106 form. However, if they obtain an E106, this means they would be covered in Slovakia for basic health treatment only, despite the fact that they make health insurance contributions in Slovakia. Most health insurance companies require an E101 certificate before they issue an E106 form. The process of obtaining an E101 certificate takes several weeks (or longer).

Social security

- The 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, retirement and permanent disability insurance, and unemployment insurance:
  - an employee who carries out his employment activities for a Slovak employer in or outside 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 7,600) as of 1 October 2006, 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 computation 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
  - guarantee insurance contributions.
- The average monthly salary that applies for the period from 1 July 2006 to 30 June 2007 is SKK 17,274, which is the 2005 average monthly salary. From 1 July 2007, the 2006 average monthly salary will apply. This amount should be announced by 30 April 2006.
- The following is an overview of social and health insurance contributions for employee and employer:

	Employee	
	Rate	Maximum monthly contribution in the period to 30 June 2007 (SKK)
Sickness	1.4%	363
Retirement Permanent disability	4% 3%	2,073 1,555
Unemployment	1%	519
Health	4%	2,073
Guarantee insurance	-	-
Reserve fund	-	-
Total	**13.4%**	**6,583**

	Employer	
	Rate	Maximum monthly contribution in the period to 30 June 2007 (SKK)
Sickness	1.4%	363
Retirement Permanent disability	14% 3%	7,256 1,555
Unemployment	1%	519
Health	10%	5,183
Guarantee insurance	0.25%	65
Reserve fund	4.75%	2,462
Total	**34.4%**	**17,403**

- In addition to these contributions, the employer must also make **injury insurance** contributions of 0.8% of employees' total salary costs per month. From 1 January 2008, the percentage should vary from 0.3 to 2.1% based on the employer's safety classification.
- 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.
- Generally, under the EU rules, the individual has to pay the social security and health insurance contributions in the country in which he works.
- If certain conditions are met, an individual assigned to Slovakia from another EU member state (or Switzerland) does not need to contribute to the social security scheme in Slovakia. However, he should obtain an E101 form from his home state before he arrives in Slovakia.
- If the assignment will last more than 12 months, it is possible to apply for an extension and obtain an E102 form that extends the E101 form for another 12-month period.
- It is also possible to apply for an extraordinary exception to the EU rules and obtain an E101 form for a period of up to 5 years, in certain circumstances.

The second pillar's principles

- The system of old-age pension savings is financed from contributions paid to personal retirement accounts.
- Individuals who were not making retirement insurance contributions before 1 January 2005 have to contribute to the second pillar.
- Other individuals were able to choose by 30 June 2006 whether they want to participate in the second retirement insurance pillar.
- If an individual enters the second pillar, the employer's contribution to the first pillar are decreased from 14% to 5% of the computation base. The difference is 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 an asset management company to manage his or her personal pension account.
- The asset management companies have each created 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 are paid from old-age retirement savings.

Companies

Corporate income tax

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. tax resident companies are subject to Slovak tax on their worldwide income, subject to any relief or exemption available under a double taxation treaty.
- 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 corporate tax rate is 19%.

Tax base

- The tax base is generally the accounting result as determined under Slovak statutory accounting rules, as adjusted for tax purposes.
- If the Slovak tax payer is obliged to prepare its accounts under the International Financial Reporting Standards ("IFRS"), the tax base is derived from either:
  - the profit before tax under IFRS, adjusted for tax purposes using the IFRS bridge issued by the Slovak Ministry of Finance; or
  - the Slovak statutory accounting rules (i.e. the taxpayer must recalculate its accounting result based on Slovak statutory accounting rules).
- 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.
- Under the transfer pricing rules, the tax base should be increased by the difference in prices charged between a Slovak entity and its foreign related parties compared to those that would be charged between independent parties, if such a difference results in a reduction in the Slovak entity's tax base.

- Capital gains from the disposal of assets are included in the corporate income tax base.

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.

Income exempt from taxation

Exempt income includes:

- Yields of state bonds of the Slovak Republic issued and registered outside the Slovak Republic.
- Interest and certain 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.
- Royalty payments made to related EU entities, which are the beneficial owners of such income, are exempt from Slovak taxation, provided certain conditions have been met for a period of at least two years preceding the date of royalty payment.

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 of such documents may be requested. Tax-deductible items include the following:
  - Salary costs.
  - Costs for employee business trips, up to certain amounts.
  - Fuel costs for business use, in accordance with the technical documentation of the car.

- Advertising costs incurred for the presentation of the business activities of a taxpayer, his goods, services, business name, trademark, and brand names.
- Promotional products not exceeding SKK 500 for each item if they bear either the company's business name or trademark.
- Interest, including interest on foreign related party loans.
- Royalties and service fees.
- The tax written down value of assets sold or liquidated.
- The purchase price of securities sold, or the costs of derivates, up to the amount of income from their disposal.
- The creation of reserves
  - for goods and services provided in the current year, where the invoice has not been received by the year end;
  - for costs of unused staff holidays (including statutory employer's social security and health insurance contributions);
  - for employees' bonuses and premiums (including statutory employer's social security and health insurance contributions);
  - for the costs of audit services and the costs of preparing the tax return for the current year;
  - for certain expenses related to emissions quotas.
  - for handling waste electronic products and appliances.
  - for closing of mines and waste accrued by mining activities.
  - for life and non-life insurance created under the Act on Insurance Companies.
- A written-off receivable, up to its nominal value is tax deductible. This receivable must meet the specific criteria stated in the Tax Act.
- The value of an assigned receivable, up to the income from its assignment or its nominal value, depending on the circumstances.
- A bad-debt provision, if certain conditions are met.
- Contributions to supplementary pension savings made by the Slovak employer on behalf of the employee, up to 6% of the gross salary of the employee participating in these plans.
- Tax depreciation or operating lease payments for personal cars.
- Finance lease fees, if the leasing period is at least three years, and at least 60% of the tax depreciation period that would apply to the leased asset if it was owned. The leasing fees that the lessee pays

to the lessor are tax deductible expenses as they are treated as interest and depreciation (see below).

- A voluntary contribution to an association (legal entity) for membership in that association – up to the lower of SKK 2 million, or 0.005 % of the entity's taxable income. The association should have been set up to protect the business interests of its members.

Cash basis costs/income

- Contractual penalties and interest on late payments, except for late payment interest, paid to or received by banks are tax deductible or taxable on a payment or receipts basis, provided they were accounted for in the year of payment / receipt or an earlier year.
- Rental fees and commissions paid to individuals are also tax deductible on a cash basis.

Tax non-deductible items

- The tax law restricts the tax deductibility of certain expenses. Generally, these are expenses regarded as not related to generating taxable income. The following expenses are specifically tax non-deductible:
  - Dividends, including those paid to statutory representatives.
  - Expenses above statutory limits (such as travel expenses).
  - Representation (entertaining) expenses and promotional products with a value over SKK 500 per item, or promotional items not bearing either the company's business name or its trademark.
  - Gifts and donations.
  - Expenses related to non-taxable income.
  - Accounting provisions and accounting reserves (with the exceptions outlined in the section Tax Deductible Items).
  - Non-contractual fines and penalties.
  - Creation of a reserve fund and other funds, excluding the obligatory social fund.
  - Corporate income tax.
  - Taxes paid on behalf of other taxpayers.
  - Losses realised on the sale of land.
  - Bribes and other illegal payments.
  - Expenses related to the personal needs of the taxpayer or the taxpayer's owner(s).
  - Amortization of goodwill.

Donations

- A taxpayer can donate up to 2% of its tax liability to a qualifying company of its choice, by submitting a form (which is a part of the tax return form) stating the name of the recipient company.

Dividends

- Dividends paid out of profits generated after 1 January 2004 are not subject to Slovak tax, regardless of whether the recipient or payer is EU-resident or not, and regardless of 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 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 reduce the rate of withholding tax.
- Dividends may not be paid out by a Slovak company until after its 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 expenses in excess of this are tax non-deductible for the Slovak payer.
- Interest on the acquisition of fixed assets may be capitalised.
- Interest paid by a Slovak tax resident to a Slovak tax non-resident is subject to domestic withholding tax of 19%. This withholding tax may be reduced by an applicable double tax treaty, or by the provisions of

the EU Interest and Royalties Directive as incorporated into the Slovak Income Tax Act.

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 have established a business connection only for the purpose of decreasing the tax base).
- An economic or personal relationship means one party having a participation in the equity, control, or management of the other party, or a relationship between two parties that are under the common control or management of another party.
- Participation in equity or control means a higher than 25% direct or indirect participation in share capital or voting rights.
- 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 this has resulted in a reduction in a Slovak entity's tax base.

Thin capitalisation

- There are no thin-capitalisation rules. The entire amount of interest payable to related parties is tax deductible, provided the interest does not exceed an arm's length rate, 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 and arising from the revaluation of unrealised receivables and payables as at year end are normally treated as taxable or tax non-deductible based on their accounting treatment. However, they can be excluded from the tax base if the taxpayer notifies the tax authorities about its intention to do this before the beginning of the tax period concerned. This option remains in place until the taxpayer notifies the tax authorities that it wishes to stop excluding such differences. This notification must be made before the end of the tax year concerned. Foreign exchange differences arising from revaluation of other assets and liabilities as at the 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 reported the 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

- Tax depreciation (capital allowances) is generally available for expenditure incurred on tangible and intangible fixed assets.
- The tax depreciation of intangible fixed assets equals the accounting depreciation.
- Some types of assets are excluded from depreciation, such as land, artworks, and national monuments.
- Tangible fixed 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 and freezing equipment, most production line equipment, TV and radio receivers
3	12	Houses and buildings made of metal, turbines, air conditioning systems, ships
4	20	Buildings of a permanent nature.

- Taxpayers do not have to depreciate an asset every year. Tax 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. The tax depreciation period equals the leasing period, and the tax depreciation base is the acquisition value of the leased asset without VAT, and increased by the expenses related to its acquisition that the lessee incurred before the asset was put into the use. Depreciation charges are applied in equal amounts on a monthly basis.
- For most assets, the taxpayer can choose to claim tax 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

Tax securements

- If a Slovak entity pays certain types of fees to a foreign entity that is not tax resident in the European Union, the Slovak entity has to deduct a tax securement of 19%, unless an applicable double tax treaty specifies a lower amount. 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, tax securements do not have to be withheld.

- The tax administrator can instruct any individual or entity to withhold a tax securement of half of the standard tax rate (i.e. 9.5%) from payments made to any taxpayer, even another Slovak entity.

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 the securities is not more than 10% lower than the average selling price on the stock exchange on the day of 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 made an overall profit from derivates for the tax period.
  - The taxpayer has a licence issued by the state authorities to trade in securities.

  The above tax deductible cases do not apply to the sale of shares in a limited liability company or cooperative, a loss on which is tax non-deductible.
- Most types of securities and derivates must 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 generally included in the tax base.

Tax non-residents

- 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, unless a relevant double tax treaty provides for a different treatment. If the foreign seller is resident outside the EU, the Slovak purchaser must withhold a 19% tax securement from payment of the sale price. The seller should submit a Slovak corporate tax return to tax the profits on the sale.

Income from securities

Dividend income

- Dividends related to 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.

Interest income

- Interest income 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 from Slovak sources to Slovak non-residents, it is subject to withholding tax at source of 19%, or at a lower rate specified in an applicable double taxation treaty.
- Also, under Slovakia's implementation of the EU Interest and Royalties directive, interest paid by Slovak tax residents to related EU residents companies who are the beneficial owners of the income is exempt from Slovak tax if the companies concerned were related (as defined in the law) for at least two years before payment of the income.
- Income from Slovak government bonds issued and registered abroad is exempt from Slovak tax.

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 depends on 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 or tax securement 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 trading 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 such a method.
- A branch has the same tax registration, filing, payment, and tax 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 mainly by:
  - A permanent place or facility being used either constantly or repeatedly by a foreign company carrying out business activities in Slovakia;
  - An activity, place or facility through which a foreign company carries out one off activities in Slovakia for more than six months in any 12 consecutive months; or

- A person acting on behalf of the foreign company and repeatedly concluding contracts or negotiating details of contracts on its behalf.

- The conditions for creating a PE may be modified by a double tax treaty.
- The method of taxation of a PE can be negotiated with the Tax Office (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 certain payments made to foreign taxpayers unless they are resident in the European Union.
- 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.
- It is also not necessary to withhold a tax securement if the payment made to the foreign entity is subject to withholding tax.
- In addition, the Tax Office may specifically 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

** 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 related companies is not subject to withholding tax, provided certain conditions are met.*

- Dividends paid out of profits arising in 2004 and later years are not subject to withholding tax.

- Withholding 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.

Certificate of payment of withholding tax

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

Corporate Tax Compliance

Tax period

- The corporate 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; or
    - a de-merger of a company or other legal entity to the end of the calendar year or fiscal year in which this 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. The interim period between the old and new fiscal years must be less than twelve months.

Filing

- Corporate tax returns must be filed within three months following the end of the tax period.
- An extension to the filing deadline can be requested at least 15 days before the normal filing deadline. 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 up to three months. However, if part of the income reported in the tax return is from sources abroad, the tax administrator may extend the filing deadline by up to six months.

Payment

- The balance of tax due for a fiscal year is payable on the tax return filing deadline.
- A company must also 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 continue to be payable 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.

- An entity that is established during a calendar year (except through merger or de-merger) does not have to pay tax advances in its first taxable period.
- On filing a tax return, the difference between the advances paid during the fiscal year of filing the tax return, and the tax advances that would have been due based on the actual tax liability is determined. Any outstanding amount must be paid within 30 days after the filing deadline for the tax return. 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 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 tax 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; or
  - 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 base interest rate multiplied by the difference in tax between that shown in the tax return and that determined by the tax administrator. If the additional tax charge arises in an amended tax return that the taxpayer filed voluntarily, this penalty is halved.
- Failure to comply with non-monetary obligations 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 million.
- The tax office will not impose a penalty that would be 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

Slovak legislative situation

- There are several laws applicable to Slovak state aid and investment incentives. The most important are:
  - The Investment Incentive Act;
  - The State Aid Act;
  - The Act on Employment Services; and
  - The Income Tax Act, Act.
- The present situation concerning Slovak state aid and investment incentives is not entirely clear. For example, the current Investment Incentive Act covers only corporate tax credits, but these are a form of state aid, and various conditions, including those outlined below, must be met for a company to be eligible for this. In addition, a tax credit might not be granted if the entire approval process is not finished by the end of 2007, although it is possible that this may be extended.
- The Slovak Ministry of Economy has recently prepared a new draft Investment Incentives Act ("the new Act"), which should be effective from 1 July 2007. In the past, the Slovak Ministry of Economy published rules for state aid for investors. However, these applied only up to 31 December 2006. New draft state aid rules will be introduced in Febru-

ary 2007, and should apply until 1 July 2007, at which time the new Act should replace them.

Investment incentives available under the new Act

- The following investment incentives, all of which are considered state aid, should be available under the new Act:
  - cash grants for purchasing tangible fixed assets for specific projects;
  - corporate tax credits;
  - financial support for creating jobs;
  - financial support for training employees; and
  - a discount on the price of publicly-owned real estate.
- Investment incentives should be potentially available for projects in the following areas:
  - industry;
  - technology centres and technology development centres; and
  - tourism.

Conditions to be met under the new Act

- To be eligible for state aid, a company must meet various conditions. The following criteria are the most significant ones:
  - The investment must be for establishing a new operation or modernizing existing production facilities.
  - The investor must invest certain amounts in tangible and intangible fixed assets.
  - The business activities must start within three years from the date that the Ministry of Economy grants the investment incentives.
  - At least 25% of the total value of the investment cannot be covered by state aid.
  - The assets for which state aid is provided cannot be included in the investor's eligible costs for determining its potential entitlement to state aid.
  - The applicant for state aid can be either a Slovak or foreign entity, or an individual, but only a Slovak company or branch, or a Slovak individual, can receive the state aid. If the applicant is a foreign entity, it must be the parent/founder of the Slovak entity/branch claiming the state aid.
- Various Slovak authorities (such as the Slovak Ministry of Economy and the Slovak Government), and in specific cases also the European

Commission, must approve the state aid to be granted. There is no obligation on their part to grant state aid, even if the investor meets all of the conditions for receiving it.

European legislation

- Slovakia, as an EU member state, must also follow the EU rules that apply to state aid. Generally, these recognize regional aid (aid to promote the economic development of disadvantaged regions) and certain other forms of state aid (aid for research and development, small and medium enterprises, or training). Regional aid differs from other categories of aid because it is restricted to specific geographical areas, and aims specifically at encouraging the economic development of those areas by providing support for investments and job creation.

New Guidelines on National Regional Aid for 2007 – 2013

- In December 2005, the European Commission adopted new Guidelines on National Regional Aid for 2007 – 2013 ("the Guidelines") effective from 1 January 2007. These Guidelines set rules for selecting regions that are eligible for regional aid, and define the maximum levels of this aid. In order to implement the Guidelines, the Commission has approved a regional aid map for each Member State for the period from 2007 to 2013, which identifies the areas eligible for aid and the maximum aid allowed.
- The Guidelines also contain a number of changes to clarify and simplify the current regional rules (for example, they introduce a new form of operating aid for the least populated areas and a new form of aid to encourage business start-ups in assisted areas, which will apply to the establishment and expansion phases of small enterprises during their first five years). Rules related to large investment projects (those of over EUR 50 million) are also included in the Guidelines, as are new bonuses for small and medium-sized enterprises.

New European Commission Regulations

- Under the EC Treaty state aid rules, the European Commission has adopted a new regulation on a block exemption for regional investment aid ("the Regulation"). Based on this, EU member states will no longer have to notify the Commission about regional investment aid schemes if they fulfil the conditions set out in the Regulation. This considerably reduces the administrative burden on Member States.
- The Regulation will exempt transparent forms of regional aid – schemes for which it is possible to calculate precisely the aid intensity as a percentage of the investment costs without the need for

a risk assessment. Regional aid schemes involving public shareholdings, risk capital and state guarantees are presumed not to meet this criterion, and such schemes remain subject to prior notification to the Commission. Furthermore, due to the potentially higher risk of serious distortions of competition, the Commission must continue to be notified of aid for large investment projects (those of over EUR 50 million).

Other taxes

Value-Added Tax

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 44,500) for the previous 12 calendar months. The application for obligatory registration must be filed with the tax authorities by the 20th of the calendar month following that in which the turnover threshold is reached.
- VAT registration is obligatory, if:
  - a legal entity or individual acquires a VAT registered business or part of such a business;
  - one of the members of an association, who carries out business activities jointly based on an association agreement, decides to register for the tax prior to achieving turnover of SKK 1.5 million, then all members of the association must apply for VAT registration at the same time.
  - a foreign entity provides taxable supplies in Slovakia (in which case it must file the application for registration before it starts making such supplies);
  - a foreign entity makes long-distance sales in Slovakia to persons not registered for Slovak VAT, and the total value of the goods supplied reaches SKK 1.5 million 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 entity acquires goods from another EU-member state for a total value of SKK 420,000 (approximately EUR 12,000) or more in a calendar year.
- An entity that makes supplies of a VAT-able nature in Slovakia can voluntarily register for VAT by filing a request with the tax authorities.
- A foreign entity does not have to register for VAT in Slovakia in certain cases, for example if the supplies it makes are VAT exempt, or the person liable to pay the VAT is the customer (the recipient of the taxable supply).

- The Tax Office is obliged to issue a VAT registration certificate and VAT number to a foreign entity within 7 days, and to an entity with its seat, place of business or permanent establishment in Slovakia within 30 days, from the filing of a complete request for registration.

Call-off stock simplification

- A simplified call-off stock scheme applies where a foreign entity 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 Slovak VAT payer only. If the foreign entity 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 on acquisition of the goods.

VAT de-registration

- A registered VAT payer can de-register in the following cases:
  - If the VAT payer stops its business activities.
  - If a registered foreign entity stops providing taxable supplies in Slovakia.
  - On request, but only after being registered for VAT for at least one year, and provided that the VAT payer's taxable turnover in the last 12 calendar months did not reach SKK 1.5 million.
  - A foreign entity that makes long-distance sales to Slovakia can ask to be de-registered after at least one year of VAT registration, provided that the total value of 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 of a total value of SKK 420,000 or more in the relevant calendar year, and also did not reach this threshold in the previous calendar year.
- The tax authorities determine the last VAT period, and the VAT payer must return the original registration certificate with its VAT identification number within 10 days from the end of its last VAT period.

VAT rates

- From 1 January 2007 two VAT rates apply to taxable supplies. The base rate of 19% applies most to goods and services, whilst a reduced rate of 10% applies to pharmaceutical products and some medical aids depending on the commodity code (as listed in the Slovak VAT act).

Exempt supplies

- Exempt supplies without credit entitlement include postal services, financial and insurance services, education, radio and TV broadcasting services, health and social services, the transfer and leasing of real estate (with some exceptions), and lottery services.
- 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 into the EU.
- A VAT payer can choose to charge VAT on the transfer of a building, including the related land plot, and on the lease of a building to another VAT-registered entity. In this case, related input VAT is deductible. Also the sale or lease of land zoned for construction, and of buildings within five years or their official approval for lease, are subject to VAT.

Tax representative for the import of goods

- The import of goods dispatched or transported from a non-EU country to, where this dispatch or transport ends in another EU country, can be VAT exempt, provided certain conditions are met.
- If the importer is a foreign entity who 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 is a Slovak VAT payer with his seat in Slovakia.
  - The importer gives the representative a notarised power of attorney to represent him.
  - The representative obtains an identification number from the Tax Office Bratislava I for the purpose of acting on behalf of the importer.

- The foreign person does not then 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;
  - the VAT payer has a valid VAT document (usually an invoice); and
  - the import VAT has been paid (if the goods were 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 entity 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 the export of goods or services exempt from VAT with credit.

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) to the total amount of supplies (including VAT-exempt supplies).

- There is a requirement to make an adjustment to VAT reclaims related to the purchase of certain tangible and intangible assets if their use has changed from one group to another within a period of five years from the date of acquisition (ten years in the case of real estate).

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 car 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, within 15 days of making the supply.
- If invoices are issued in electronic form, they must have an electronic signature.
- Complete and accurate VAT records and documents must be kept for ten years.
- 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 the three groups outlined above.
- Monthly VAT returns must be filed if annual turnover exceeds SKK 10 million (approximately EUR 295,000). VAT returns must be filed each calendar quarter if turnover for the previous calendar year is less than SKK 10 million, although a VAT payer with turnover below SKK 10 million can opt to file monthly returns.
- 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 a VAT liability in the following VAT return. If there is insufficient VAT payable in that VAT period, then the tax authorities should refund the excess input VAT within 30 days..

VAT refund for foreign entities

- An entity registered for VAT, or a similar general consumption tax, abroad, can 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 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 (with certain exceptions).
- The VAT refund can be claimed by submitting a request to the Tax Office Bratislava I 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 on the taxable supplies exceeds SKK 8,000.
- The VAT will be paid to the foreign company within six months from the date of filing the request.
- The VAT is refunded to entities from EU countries, and those from non-EU countries based on reciprocity.

Excise taxes

Products liable to excise taxes

- Slovak excise tax is payable on the import of the following goods into Slovakia from outside the EU, when the goods are released to the free circulation custom mode:
  - Mineral oil
  - Beer
  - Wine
  - Spirits
  - Tobacco products
- Slovakia was granted a transition period for applying excise tax on electric energy, coal, and natural gas until 2010. However, from 1 January 2007, the level of taxation should be at least 50% of the level defined in the relevant EU Directive.
- The rate of excise tax depends on the specific type of product being imported.
- In certain limited cases, the above types of products are exempt from excise tax.

Authorized entities

- A tax suspension arrangement enables the tax liability to be postponed until the day the product is released into the free circulation regime.
- The production, storage, receipt and sending of products under the tax suspension arrangement is carried out by an authorized warehouse keeper.
- A 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 that is exempt from excise tax. The company must 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 granted.

- The registration and licence (if necessary) are issued by the Customs Office on the basis of a written application.

De-registration

- 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.

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, which must be issued in four copies. The law sets out how these should be used.
- A simplified accompanying document is required if any person, as part of its business activity, supplies goods subject to excise tax to another EU-member state for business purposes.

Excise tax refunds

- In certain circumstances, the tax warehouse keeper, or another authorized entity can obtain a refund of Slovak excise tax on a product that has been taxed.

Vehicle Tax

- The Act on Road Tax was replaced by the Act on Local Taxes with effect from 1 November 2004.
- Under this Act, each Self-governing Region decides on the tax rate in a General Binding Resolution, and vehicle tax is paid to the tax authority in the place where the vehicle is registered, or where it is temporarily based, if it is not registered in Slovakia.
- Taxable vehicles are those used for business purposes in the Slovak Republic, whether or not they are registered here.

- 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, and that are using the roads only for crossing from one place to another;
  - vehicles used for testing purposes and which have been allotted a special registration number.
- The taxpayer is an individual, legal entity or registered branch, which uses the vehicle for business purposes.
- Tax rates are set:
  - for passenger cars – depending on engine capacity in cm3;
  - for other vehicles, such as delivery vans, lorries, buses, trucks and trailers, depending on the number of axles and the vehicle's weight.
- The tax period is a calendar year. A taxpayer must file the tax return and pay the tax liability in advance by 31 January 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

- Property tax is also governed by the Act on Local Taxes, and is divided into:
  - Land tax;
  - Building tax; and
  - Tax on apartments.

Land Tax

- Land tax is generally payable by the registered owner of land, or the registered custodian of land that is owned by the state or self-governing region, or the lessee, if the lease is longer than five 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 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, within certain limits.

Building Tax

- Is generally payable by the registered owner of the building, or the registered custodian of a building owned by the state or self-governing region, or the lessee of a building administered by the Slovak Land Fund.
- If the taxpayer cannot be determined, the tax is payable by the individual or legal entity who uses the building.
- The basic tax rate is SKK 1 for each square metre of ground space occupied by the finished building.
- The tax rate can be changed, within certain limits, by the Municipality issuing a General Binding Regulation.
- If the building has more than one floor, a surcharge for each additional floor can apply.

Tax on apartments

- Is generally payable by the registered owner of an apartment or registered custodian of a flat owned by the state or self-governing region.
- The basic annual tax rate is SKK 1 per square metre of floor area of the apartment.
- The tax rate can be changed by the Municipality issuing a General Binding Regulation.

Common provisions for tax on land, building and apartments

- The taxable period is the calendar year.
- The tax liability arises on 1 January following the year in which the taxpayer obtained an interest in the property subject to the tax.

- The taxpayer must file the tax return by 31 January of the tax period in which the tax liability arises. In the next tax period, a tax return should be filed only if there are changes in circumstances that affect the tax liability, such as a change in the type or area of the property (but not just changes in the real estate tax rates levied by the Municipality). The tax administrator will issue the tax assessment by 15 May of that year.
- The Municipality may allow the tax to be paid in instalments. The full tax liability or the first instalment is payable by 31 May.

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

List of countries with which Slovakia has concluded a valid Double Tax Treaty, as at 1 January 2007

	Recipient		Interest (%)		Royalties (%)	
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	Estonia	383/2006	0/10	(15)	10	
14	Finland	207/2001	0		0/1/5/10	(8)
15	France	73/1975	0		0/5	(1)
16	Germany	18/1984	0		5	
17	Greece	98/1989	0/10	(3)	0/10	(1)
18	Hungary	80/1996	0		10	
19	Iceland	225/2003	0		10	
20	India	77/1987	0/15	(4)	30	
21	Indonesia	12/2002	0/10	(3)	10/15	(5)
22	Ireland	365/2000	0		0/10	(1)
23	Israel	327/2000	2/5/10	(9)	5	
24	Italy	17/1985	0		0/5	(1)
25	Japan	46/1979	0/10	(4)	0/10	(1)
26	Korea	244/2003	0/10	(4) (11)	0/10	(1)
27	Luxembourg	227/1993	0		0/10	(1)
28	Latvia	317/2000	0/10	(4)	10	

29	Lithuania	756/2002	0/10	(4)	10	
30	Malta	318/2000	0		5	
31	Moldavia	514/2006	10		10	
32	Mongolia	30/1979, 49/1979	0		0	
33	Netherlands	138/1974	0		5	
34	Nigeria	339/1991	0/15	(3)	10	
35	Norway	35/1980	0		0/5	(1)
36	Poland	95/1996	0/10	(4)	5	
37	Portugal	11/2005	10		10	
38	Romania	105/1996	0/10	(4)	10/15	(1a)
39	Russia	31/1998	0		10	
40	Singapore	381/2006	0		10	
41	Slovenia	386/2004	10		10	
42	South Africa	39/2001	0		10	
43	Spain	23/1982	0		0/5	(13)
44	Sri Lanka	132/1979	0/10	(12)	0/10	(1)
45	Sweden	9/1981	0		0/5	(13)
46	Switzerland	127/1998	0/10	(7) (11)	0/5/10	(1) (10)
47	Tunisia	419/1992	0/12	(3)	5/15	(1)
48	Turkmenistan	100/1999	0/10	(3)	10	
49	Turkey	90/2000	0/10	(3)	10	
50	Ukraine	173/1997	10		10	
51	United Kingdom & North Ireland	89/1992	0		0/10	(1)
52	United States	74/1994	0		0/10	(1)
53	Uzbekistan	444/2003	10	10		
54	Serbia and Montenegro (Yugoslavia)	269/2002	10	10		
55	Macedonia, Bosna and Herzegovina	99/1983	0	10		

The double tax treaty with Egypt, has been concluded, but has not been ratified by the Slovak Parliament yet.

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 for the use of trademarks. The lower applies in 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 sale 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 interest paid to an other state or political subdivision of a local authority.

3. The zero rate applies if the interest is received by the government / the central bank / other state institutions (see the 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 guaranteed / financed / indirectly financed by the government / governmental institutions (see treaty for exact wording).

5. The rate of 10% applies to royalties for cinematography/ TV broadcasting/ radio broadcasting as well as for giving up rights related to royalties. The higher rate applies in other cases.

6. This rate also applies to payment for services.

7. Withholding tax is nil on bank loans.

8. The zero rate applies to copyrights, 1% applies to finance lease of equipment, 5% applies to equipment rental and royalties for software/ cinematography/ TV and radio broadcasting, 10% applies to payments for 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 ; 10% applies in all other cases.

10. Slovakia can apply the rate of 5% to royalties for the use of trademarks, patents or know-how paid from Switzerland to Slovakia, if Switzerland does not apply the 10% rate.

11. The zero rate applies to interest on loans and credits in connection with the sale of industrial, business or scientific equipment, or the 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.
15. 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 guaranteed / financed / indirectly financed by the government / governmental institutions (see treaty for exact wording).

The following publications of PricewaterhouseCoopers provide further information about Slovak tax legislation:

Tax & Legal Alert

The bulletin includes comments on the new changes in Slovak tax and related legislation and is issued monthly in Slovak, English and German.

Indirect Tax Flash

This newsflash covers major changes in the VAT legislation and is issued in Slovak, English and German.

Taxes At a Glance

This booklet summarises basic, tax related information about different CEE/CIS countries and provides guidance to international tax practitioners.

CEE-CIS Tax Notes

CEE-CIS Tax Notes is an annual publication which provides an update on tax changes in 23 Central Eastern European countries. Quarterly updates include topical articles from each country.

All of these publications can be found on our website **www.pwc.com/sk**

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