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# ***Pocket Tax Book 2018***

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A Practical Guide  
to the Slovak Tax  
System



This booklet is based on the tax law at 1 January 2018. It is intended to be a general guide and is, therefore, in a condensed format. It should not be regarded as a basis for ascertaining tax liability in specific circumstances. Professional advice should always be taken before acting on any information in this booklet.



## **Dear Friends and Business Partners,**

changes to the tax law effective as of 1 January 2018 reflect global tax developments – a tightening of the rules to prevent tax evasion and an increase of taxation transparency to ensure that part of tax revenues in the country where values are created ends up in the appropriate national budget.

For the first time, an exit tax has been introduced with the objective of taxing values created in Slovakia when relocating property or business activities to another jurisdiction. Another significant innovation is the introduction of controlled foreign corporation rules (effective as of 2019), i.e. taxation of income of foreign subsidiaries in Slovakia. Tighter rules will also apply to taxation of income of foreign shareholders from Slovak entities and taxation of business combinations which, together with amendments to the Slovak Commercial Code, will definitely not contribute to the simplification of our business environment. The taxation of income from services provided in Slovakia via digital platforms has also been introduced.

However, there are also some positive changes – the introduction of the “patent box”, which provides tax exemption of up to 50% of income from intangible assets, and an increase in the deduction of R&D costs from 25% to 100%, which will promote the declared intention of supporting businesses with higher added value. In addition, income from selling shares will be tax-exempt, which will make Slovakia more competitive within the V4.

Changes to VAT – introduction of the reverse charge unlimited in value for agricultural products, or an obligatory adjustment of the deducted input VAT for all structures, not only buildings – are intended to prevent tax evasion in this very problematic tax area.

Another new feature is the allocation of the tax reliability index by the tax administration, which is intended to motivate taxpayers to improve their tax discipline and make doing business easier for those who comply with the rules, and punish those who do not.

It remains difficult to find the right direction in an environment of constant changes at both the local and international level. I am convinced that my colleagues – specialist in different tax areas – and myself can be of help to you also this year.

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## Contents

<b>Individuals</b>	<b>08</b>
<b>Personal Income Tax</b>	<b>08</b>
General Principles	08
Tax Residence	08
<i>Slovak Tax Residents</i>	08
<i>Slovak Tax Non-Residents</i>	08
Personal Income Tax Base and Tax Losses	09
Tax Allowances	09
Tax Registration	11
Tax Returns	11
Allocation of Tax Paid	11
Penalties	11
<b>Health Insurance and Social Insurance</b>	<b>12</b>
Health Insurance	12
Social Insurance	13
<i>Overview of Social and Health Insurance Contributions from employment income</i>	13
<b>Companies</b>	<b>14</b>
<b>Corporate Income Tax</b>	<b>14</b>
Entities Liable to Corporate Income Tax	14
Tax Rate	14
Minimum Corporate Tax	14
Tax Base	14
Income not Subject to Tax	15
Income Exempt from Taxation	15
Tax-Deductible Items	16
Allocation of Tax Paid	17

Dividends	17
Interest	17
Foreign Exchange Differences	17
Tax Losses	18
Tax Depreciation	18
Business Combinations	19
Introduction of Exit Tax	19
Capital Gains and Securities	20
Taxable Period	21
Filing	21
Amended Tax Return	21
Payment	21
Fines and Penalties	22
<b>Transfer Pricing</b>	<b>23</b>
General Principles	23
Transfer Pricing Documentation	23
CbCR – Country-by-Country Reporting	24
<b>Corporate Taxation of Foreign Entities</b>	<b>24</b>
General Principles	24
Branch of a Foreign Entity	25
Permanent Establishment (PE)	25
Withholding Tax and Tax Securement	28
<b>State Aid and Investment Incentives in Slovakia</b>	<b>29</b>
Investment Incentives	29
Super-Deductions of Research & Development Costs	32
(New rules for taxable periods beginning on or after 1 January 2018)	

<b>Other Taxes</b>	<b>33</b>
<b>Value-Added Tax</b>	<b>33</b>
VAT Registration	33
VAT Group	34
Call-off Stock Simplification	34
VAT Rates	34
Special VAT Treatment - Cash Accounting	34
Reverse Charge in the Construction Industry	34
Exempt Supplies	35
Input VAT Deduction	36
VAT Compliance	36
EC Sales List	37
VAT Control Statement	37
Obligation of Electronic Filing	37
VAT Refunds	38
<i>VAT Refund for Slovak VAT Payers</i>	38
<i>VAT Refund for Foreign VAT Payers from Another EU Member State</i>	38
<i>VAT Refund for Foreign Entities from Non-EU Countries</i>	38
Compensation for VAT Refund Retention	39
<b>Excise Duties</b>	<b>39</b>
Goods Subject to Excise Duties	39
Authorised Entities	39
Registration	40
Excise Duty Compliance	40
Excise Duty Refunds	40
<b>Customs Duties</b>	<b>41</b>
General Principles	41
Right of Representation	41
Customs Procedures	41
Customs Debt	42

Simplifications	42
Violation of Custom Regulations	42
<b>Motor Vehicle Tax</b>	<b>43</b>
<b>Real Estate Tax</b>	<b>44</b>
Land Tax	44
Building Tax	44
Apartment Tax	44
Common Provisions for Tax on Land, Buildings and Apartments	44
<b>Bank Levy</b>	<b>45</b>
<b>Special Levy</b>	<b>45</b>
<b>Levy on Non-Life Insurance Premiums</b>	<b>46</b>
<b>FATCA and CRS</b>	<b>46</b>
<b>Local Fee for Development</b>	<b>47</b>

# **Individuals**

## **Personal Income Tax**

### **General Principles**

- Slovak tax residents are subject to personal income tax on their worldwide income, taking into account relief under Slovak law or an applicable double tax treaty.
- Slovak tax non-residents are subject to personal income tax on their Slovak source income.
- The taxable period is the calendar year.
- Personal income tax rates depend on the individual's income. A tax base of up to 176.8 times the subsistence level (i.e. EUR 35,268.06) is subject to a 19% tax rate. Amounts in excess of this are subject to a 25% tax rate. Taxable income from dependent activities of selected constitutional officers is subject to a special tax rate of 5%.
- The tax rate applicable for certain type of income from (holding) capital as-sets is unified at 19%.
- Dividends paid from profit generated during the accounting period starting on or after 1 January 2017 are subject to a specific tax rate of 7% (or 35% if the individual is a resident of a non-contracting state).

### **Tax Residence**

#### **Slovak Tax Residents**

- Individuals are considered Slovak tax residents if they:
  - Have permanent residence in the Slovak Republic ("Slovakia"), or
  - Are physically present in Slovakia for 183 days, or more, in a calendar year, either continuously or in total; or
  - Have a residence in Slovakia (i.e. accommodation not intended only for occasional use) and it is evident that the individual intends (due to personal and economic reasons) to stay here permanently.

#### **Slovak Tax Non-residents**

- Slovak tax non-residents are subject to personal income tax on their Slovak source income such as:
  - Income from employment carried out in Slovakia;
  - Income paid by a Slovak company for acting as a statutory representative of that company;
  - Income from self-employment activities, or from provision of services in Slovakia;



- Income from interest, licence fees, sale or rental of property located in Slovakia, or from lottery winnings; and
- Income from dividends.
- Income may be subject to tax regardless of whether or not it is paid in Slovakia.

### Personal Income Tax Base and Tax Losses

- An individual's tax base is calculated by adding income from different sources (from employment, entrepreneurial activities, other self-employment activities, rent, and other income).
- Specific income from holding capital assets, i.e. interest, is included in a separate tax base from 2016.
- Dividends paid from profit generated during the taxable period starting on or after 1 January 2017 and from profit generated during taxable periods until 31 December 2003 and paid after 31 December 2016 are subject to a specific tax rate.
- The Income Tax Act specifies income that is tax exempt. From 2016, such income includes, subject to certain conditions, income from the sale of securities listed on a regulated market, provided the period between acquisition and sale exceeds one year, and income from longterm investment savings, after 15 years.
- As a rule, expenses unavoidably incurred when generating and maintaining taxable income are deductible from such income. However, eligibility for deduction must be analysed for each income type with regard to the individual's specific circumstances.
- Tax losses from entrepreneurial or other self-employment activities may be utilised equally during no more than four subsequent taxable periods, but only to offset taxable income from entrepreneurial or other self-employment activities. A tax loss cannot be utilised against, for example, rental income or income from capital investments.

### Tax Allowances

- Tax allowances may only be claimed on income from employment and income from entrepreneurial or other self-employment activities.

Personal Allowance			
Entitlement:	Per taxpayer		
Applicable for annual tax base:	Below EUR 19,948.00	From EUR 19,948.00 to EUR 35,268.06	Over EUR 35,268.06
Personal allowance:	EUR 3,830.02	Progressively decreased	EUR 0.00

### Dependent Spouse Allowance

Entitlement:	<ul style="list-style-type: none"><li>- <u>Slovak tax residents</u> sharing a household with a spouse; and</li><li>- <u>Slovak tax non-residents</u> who receive more than 90% of their worldwide income from Slovak sources (if certain conditions are met).</li></ul>		
Applicable for annual tax base:	Below EUR 35,268.06	From EUR 35,268.06 to EUR 50,588.13	Over EUR 50,588.13
Dependent spouse allowance:	Positive difference between EUR 3,830.02 and spouse's income	Progressively decreased	EUR 0.00

### Spa Care Allowance

Entitlement:	Per taxpayer
Maximum non-taxable amount:	Allowance of no more than EUR 50 per year from verifiable payments for spa care. The taxpayer may also claim verifiable payments for spa care for his spouse and dependent children of EUR 50 per person, however, only one of these taxpayers may claim this tax allowance.

### Tax Bonus for Dependent Children

Entitlement:	<ul style="list-style-type: none"><li>- Slovak tax residents with dependent children living in their household, provided they earn the minimum taxable income; and</li><li>- Slovak tax non-residents who receive more than 90% of their worldwide income from Slovak sources.</li></ul>
Applicable for taxable income of:	At least EUR 2,880.00
Tax bonus per dependent child:	EUR 21.56 per month (applied in 2018)

### Tax Bonus for Young People on Mortgage Interest Paid

Entitlement:	<ul style="list-style-type: none"><li>- Age limit - 18 to 35;</li><li>- Average monthly income not exceeding 1.3x average monthly wage in the Slovak economy for the calendar year preceding the year in which the loan agreement was concluded.</li></ul>
Maximum non-taxable amount:	50% of the interest paid in the respective taxable period; up to EUR 400 a year from a loan not exceeding EUR 50,000.

### Contributions to Supplementary Old-Age Pension Scheme

Entitlement:	After meeting specific conditions, the non-taxable part of the tax base also includes verifiably paid contributions to the supplementary old-age pension scheme.
Maximum non-taxable amount:	Verifiably paid contributions of up to EUR 180 during 2018

## **Tax Registration**

- Individuals must register with the Slovak tax office for income tax if they have a business permit in Slovakia, have started performing other self-employment activities in Slovakia, or have rented real estate in Slovakia. They must register by the end of the month following the month in which they started the above activity.
- Individuals are not obliged to register as taxpayers if they only receive income from employment (§ 5), income from capital investments (§ 7), other income (§ 8), or income subject to withholding tax (§ 43), or receive a combination of the above.

## **Tax Returns**

- As a rule, anyone liable for Slovak personal income tax whose taxable income for the year exceeds a specific amount (EUR 1,915.01 in 2018) must file a personal income tax return, except for individuals:
  - Who have no other income than that which is taxed by withholding tax (such as bank interest);
  - Whose income is exempt from Slovak personal income tax; or
  - Who have their salary taxed via a Slovak payroll and the employer prepares an annual tax reconciliation for them, and the individuals have no other taxable income.
- The filing and tax payment deadline is 31 March of the calendar year following the year in which the income was earned. This deadline may be extended by three calendar months if the tax office is notified in advance. The maximum extension is six months if the individual also receives income from abroad.
- Married couples must file separate, individual tax returns.

## **Allocation of Tax Paid**

- A taxpayer can allocate 2% (or 3% if certain conditions are met) of his tax liability for 2017 to a qualifying entity of his choice.

## **Penalties**

- Relatively high penalties may 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 income sources in the tax return. Penalties for individuals are calculated in the same way as penalties for companies.

## Health Insurance and Social Insurance

- For 2018, the maximum assessment base for all types of social insurance (except for injury insurance that is unlimited) is 7x the average salary earned two years ago, i.e. EUR 6,384.
- As of 2017, the maximum assessment base for the purposes of health insurance has been cancelled for all types of income, except dividend income.
- For self-employed individuals, the minimum assessment base for the purpose of social and health insurance in 2018 is set at EUR 456.

### Health Insurance

- Health insurance contributions are compulsory for individuals who:
  - Have permanent residence in Slovakia;
  - Do not have permanent residence in Slovakia (e.g. only have temporary residence) and are not insured in another EU or EEA 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 Slovakia, are not insured in an other EU or EEA member state (or in Switzerland) and are carrying out, or have a licence to carry out, business activities in Slovakia.
- Income subject to health insurance contributions includes all types of taxable income (income under § 5, § 6, § 7, and § 8 of the Income Tax Act) including dividends paid from profit generated from 2011 to 2016. Health insurance is not paid on rental income.
- The rate for health insurance contributions for individuals who receive dividends subject to health insurance contributions is 14% of the assessment base.
- Health insurance contributions are not paid on dividends and shares traded on regulated local or international market.
- Individuals with permanent residence in Slovakia who perform activities abroad, are not employed in Slovakia, and are insured in a state where they perform their activities are exempt from the obligation to pay contributions into the Slovak health insurance scheme.
- Regular monthly contributions to the health insurance scheme are considered to be advances on the annual liability, and are subject to an annual reconciliation performed by the relevant health insurance company, if required, by 30 September of the year following the year for which the contributions were made.

## Social Insurance

- The Slovak social insurance system covers state old-age pensions, and insurance for sickness, permanent disability, unemployment, injury and employer insolvency, and contributions to the guarantee insurance and reserve fund.
- The Slovak old-age pension insurance system consists of three pillars. The first and (with some exceptions) the second pillar are compulsory, while the third one is voluntary.
- Any employment income and income from entrepreneurial or other self-employment activities (income pursuant to § 5 and § 6 of the Income Tax Act) is subject to social insurance contributions, however, only up to the amount of the maximum assessment base (EUR 6,384 per month for 2018).

### Overview of Social and Health Insurance Contributions from employment income

EMPLOYEE		
	Rate	Maximum monthly contributions for 2018 (in EUR)
Sickness	1.4%	89.37
Retirement	4%	255.36
Permanent disability	3%	191.52
Unemployment	1%	63.84
Guarantee insurance	-	-
Reserve fund	-	-
<b>Total</b>	<b>9.4%</b>	<b>600.09</b>

EMPLOYER		
	Rate	Maximum monthly contribution for 2018 (in EUR)
Sickness	1.4%	89.37
Retirement	14%	893.76
Permanent disability	3%	191.52
Unemployment	1%	63.84
Guarantee insurance	0.25%	15.96
Reserve fund	4.75%	303.24
<b>Total</b>	<b>24.4%</b>	<b>1 557.69</b>

- In addition to these social insurance contributions, an employer must also make injury insurance contributions of 0.8% of the employee's assessment base.
- Health insurance contributions are 4% for employees and 10% for employers. Contributions are paid from the employee's gross income. The maximum assessment base for health insurance was cancelled in 2017.

## **Companies**

### **Corporate Income Tax**

#### **Entities Subject to Corporate Income Tax**

- Any legal entity with its seat or management in Slovakia is considered a Slovak taxpayer with unlimited tax liability (tax resident) and the taxpayer's worldwide income is subject to Slovak tax. To avoid double taxation, tax treaties with relevant countries apply.
- Taxpayers with limited tax liability (tax non-residents) are only taxed on income from Slovak sources.
- Group taxation is not allowed.

#### **Tax Rate**

- The corporate tax rate for 2018 is 21%.

#### **Minimum Corporate Tax**

- The minimum tax (tax licence) was cancelled from 1 January 2018.
- Taxpayers can claim a tax licence from previous periods even after 31 December 2017 at the amount of a positive difference between the tax licence and the tax calculated in the tax return for no more than three consecutive taxable periods for which the tax licence was paid.

#### **Tax Base**

- As a rule, the tax base is the profit/(loss) as determined under the Slovak Accounting Act, adjusted for tax purposes.
- If a taxpayer is obliged to report under International Financial Reporting Standards ("IFRS"), the tax base is derived from either:
  - The profit/(loss) under IFRS, adjusted for tax purposes using the IFRS bridge issued by the Slovak Ministry of Finance; or
  - The profit/(loss) that would be reported if double entry bookkeeping was applied in accordance with Slovak accounting standards.
- For tax non-residents who are not obliged to keep accounting records and decide not to do so, the tax liability is calculated by looking at the difference between income and expenses. An alternative method can be used to calculate the tax liability if the tax office gives its consent.

## Income not Subject to Tax

- The following items are not subject to corporate income tax:
  - Dividends paid from profits reported after 1 January 2004 (except for dividends received and paid to taxpayers from countries with which Slovakia has not concluded a double tax treaty or tax information ex-change agreement);
  - Shares on liquidation balances and settlement amounts paid to shareholders, to which the shareholders were entitled after 1 January 2004 (except for those received and paid to taxpayers from countries, with which Slovakia has not concluded a double tax treaty or tax information exchange agreement);
  - Income received by donation or inheritance; or
  - Income from acquiring new shares due to an increase in share capital from retained profits from previous years, or due to exchange of shares in mergers, fusions and demergers.

## Income Exempt from Taxation

- Exempt income includes:
  - Interest and certain other income from granted loans and borrowings, bonds, etc. and royalties paid from sources in Slovakia to a taxpayer from an EU member state, who is the beneficial owner of such income provided that a relationship has existed between the entities for at least two years preceding the date when the income is paid.
  - 50% of income from considerations for granting a right to use, or for using a protected patent, utility model, or software created by the taxpayer (basic patent box). A tax exemption refers only to assets created by own activities and applies to taxable periods in which amortisation of an intangible asset is included in tax expenses. A similar exemption also applies to a certain part of income from selling goods which were manufactured on the basis of a protected patent or a utility model (extended patent box). The tax exemption accounts for 50% of income attributed to the sales price, less related costs and less profit margin. If intangible research results acquired from another person are used to develop intangible assets, the tax exemption is reduced by a coefficient. Entities applying this tax exemption are entered in a register kept by the Financial Directorate of the Slovak Republic ("Financial Directorate").

## Tax-Deductible Items

- As a rule, tax-deductible expenses are expenses a taxpayer incurs when generating, securing, and maintaining taxable income. Documentation, such as receipts, invoices, and specific forms of documentation on transactions with foreign related parties, must be kept to support tax deductibility.
- When using an asset that qualifies as an asset for personal use, only the pro-rated part of related expenses/costs is tax deductible, which is verifiably incurred to generate, secure, and maintain tax deductible income; or a flat rate of 80% applies if the asset is also used for private purposes.
- Some expenses are only tax deductible for a debtor upon payment (e.g. rent for the lease of movable properties, real estate properties, fees for the use of software, know-how, copyright, etc.).
- From 1 January 2018, expenses incurred in so-called hybrid mismatches to related parties are tax non-deductible if such expenses are tax deductible for several entities; are not included in taxable income of other entities; or are (in)directly used for financing the other entity, which results in multiple tax deduction, or not including these expenses in the income of another entity.
- From September 2015, a taxpayer providing a vocational contract-based education for a student may deduct a flat amount of EUR 3,200 per student from the tax base, together with the incurred related costs in a specified amount.
- Tax expenses to related parties are tax deductible if they do not constitute a tax deductible item for another related party, or only to the extent they constitute a tax deductible income for another related party.
- The employer's expenses incurred on transporting employees to their place of work and back are tax deductible under the following conditions:
  - Public transport is either verifiably not carried out at all or not in the extent as the employer needs;
  - The employer uses a contract carrier or its own means of collective transport for 10+ persons for this purpose.
- In addition, the Income Tax Act limits the tax deductibility of certain other types of expenses.



## Allocation of Tax Paid

- A taxpayer may donate 1.0% (or 2%, if certain conditions are met) of his tax liability for 2017 to a qualifying entity of his choice.

## Dividends

- Dividends paid from profits generated after 1 January 2004 are not subject to Slovak income tax, except for dividends:
  - Paid to legal entities which are residents of non-contracting states;
  - Received from residents of non-contracting states;
  - Paid to legal entities and the taxpayer cannot provide evidence of the beneficial owner of dividends;
  - Received by a general partnership or a limited partnership, subsequently “paid” to its partners of a non-contracting state.

Such dividends are subject to a special tax rate of 35%.

## Interest

- Interest is generally tax deductible.
- Interest (and the related costs) on borrowings and loans provided by related parties are tax deductible at no more than 25% of adjusted EBITDA (the total of the result of operations before tax, including depreciation charges, and the interest expense).
- From 1 January 2018, interest on loans for the acquisition of shares is tax deductible only in the period of their sale, and the income from this sale is not tax exempt.
- Interest paid by a Slovak tax resident to a Slovak tax non-resident is subject to withholding tax of 19%, unless it is tax exempt in accordance with the EU Directive on the common system of taxation applicable to interest and royalty payments as incorporated into Slovak tax legislation. A 35% tax rate is applied to interest\* paid to a resident of a country not specified in the list published by the Slovak Ministry of Finance, or a country with which Slovakia has not entered into a double tax treaty, or an agreement on information exchange relating to taxes.

\* The 35% tax rate also applies to other types of income.

## Foreign Exchange Differences

- Foreign exchange differences charged via profit and loss accounts and arising from the revaluation of unsettled receivables and payables at the balance sheet date are treated as taxable or tax deductible in accordance with their accounting treatment. However, they can be excluded from the tax base if the taxpayer states this in the tax return.

## Tax Losses

- A taxpayer can utilise a tax loss equally over four consecutive taxable periods.

## Tax Depreciation

- Tax depreciation (capital allowances) is generally available for expenditure incurred on non-current tangible and intangible assets. Tax depreciation may also be applied to assets acquired via a financial lease.
- The tax depreciation charges of non-current intangible assets equal the depreciation for accounting purposes, except for some specific instances relating to goodwill.
- Non-current tangible assets are classified into tax depreciation groups to which different tax depreciation periods apply, as follows:

Depreciation group	Depreciation period (years)	Examples
1	4	Motor vehicles, office machines, and computers
2	6	Engines, cooling and freezing equipment, some types of production equipment and machinery
3	8	Assets of a technological character, turbines, furnaces
4	12	Prefabricated buildings made of concrete and metals, air conditioning systems, elevators
5	20	Manufacturing and commercial buildings and constructions
6	40	Residential and administrative buildings and constructions

- Certain types of assets are excluded from depreciation.
- Tax depreciation may be interrupted for one or more taxable periods and continued subsequently as if no interruption occurred.
- With regard to assets classified in depreciation groups 2 and 3, the taxpayer may select either the straight-line or accelerated depreciation method. A separate formula applies for calculating tax depreciation charges for each method. The straight-line depreciation method applies to the majority of other assets.
- For non-current tangible assets placed in service, only a proportion of the depreciation charge may be applied. This is based on the number of months in which the asset was in use.
- For some types of non-current tangible assets, where the tax written down value is only tax deductible up to the amount of income from their sale, taxpayers are entitled to apply tax depreciation charges in the year of sale in an amount corresponding to the number of whole months these assets were on their books. The interruption or changes to the interruption of depreciation of non-current tangible assets may not be applied during the tax assessment process.

## Business Combinations

- The amendments to the Commercial Code from November 2017 have strengthened the legal and administrative requirements for carrying out mergers, fusions and demergers of commercial companies (e.g. new obligation to submit a draft contract for a merger or demerger project to the tax authorities no later than 60 days before the date on which these transactions are to be approved by the company bodies).
  - In 2018, in-kind contributions, mergers, fusions, and demergers of commercial companies may only be performed for tax purposes in most cases at fair (market) values.
  - The historical price method may only be applied for mergers, fusions and demergers of commercial companies, in-kind contributions, or cross-border transactions, if certain conditions are met.

## Introduction of Exit Tax

- The exit tax applies to income in situations where taxpayers (Slovak tax residents and non-residents with a permanent establishment in Slovakia) transfer outside of Slovakia:
  - Individual property (transfer carried out by a tax resident from their headquarters in Slovakia to a permanent establishment in another country, or by a tax non-resident from their permanent establishment in Slovakia to their headquarters of permanent establishment in another country);
  - Business activities (transfer carried out by a tax resident to another country, or by a tax non-resident from their permanent establishment in Slovakia to another country);
  - Tax residence (tax resident is no longer Slovak tax resident).
- The tax is calculated by applying a 21% tax rate to a specific positive tax base, which is determined as follows:
  - When transferring individual property, its fair (market) price at the time of exit will be considered as income and its tax value will be regarded as an expense;
  - When transferring business activities, its fair (market) price of transferred asset and liabilities at the time of exit will be considered as income and the specific tax base will be calculated in the same way as when selling a business, or part thereof.
- The exit tax must either be paid in one instalment in the period for filing the tax return or, upon request, in five annual instalments if it is a transfer to an EU or EEA member state. When paying the tax in instalments, the taxpayer must also pay interest on outstanding instalments.

- The new regulation on the exit tax also addresses the valuation of assets and liabilities for Slovak tax purposes where a Slovak tax non-resident becomes a tax resident in Slovakia.
- The exit tax must be applied for taxable periods commencing on 1 January 2018 or later.

### Capital Gains and Securities

- Income from the sale of shares in joint-stock companies, ownership interests in limited liability companies, or limited partnerships (hereafter “participation”) may be exempt from corporate income tax if certain conditions are met. These conditions include the possession of at least 10% of shares or ownership interests for at least 24 months. A taxpayer who performs substantial functions in Slovakia, bears and manages the risks associated with the participation ownership, and has adequate personnel resources and material equipment to perform these functions may apply the tax exemption. However, the tax exemption does not apply to taxpayers who trade in securities, to the sale of companies in liquidation, bankruptcy or restructuring, or to taxpayers in liquidation.
- A loss from the sale of securities is tax non-deductible.
- The total costs related to derivatives are only tax deductible up to the total income from these derivatives arising in the same taxable period. However, costs related to hedging derivatives and derivatives incurred by insurance companies, reinsurance companies or by a taxpayer holding a license for trading in securities issued by the state authorities, are tax deductible in full.
- Income from the transfer of an ownership interest in a commercial company or a membership interest in a cooperative with its seat in Slovakia is taxable in Slovakia. The relevant double tax treaty may provide for a different taxation of such income in Slovakia.
- Income from the transfer of ownership interest in a commercial company or membership share in a cooperative, provided that the company or cooperative holds intangible assets in Slovakia, the carrying value of which amounts to more than 50% of the transferor’s equity, is taxable in Slovakia. The relevant double tax treaty may provide for a different taxation of such income in Slovakia.
- In-kind contributions in the share capital of a commercial company or cooperative with its seat in Slovakia may be taxable in Slovakia. The relevant double tax treaty may provide for a different taxation of such income in Slovakia.

## **Taxable Period**

- The corporate taxable period is either:
  - A calendar year; or
  - A fiscal year (any 12 consecutive calendar months).
- Special rules apply to winding up without liquidation, bankruptcy, and, in some cases, to a change of a taxpayer's legal form.
- The taxpayer must notify the tax office of a change of the taxable period from a calendar year to a fiscal year and/or a different 12-month period.

## **Filing**

- Corporate tax returns must be filed by the general filing deadline of three months from the end of the taxable period. This deadline may be extended by another three calendar months based on a notification to the tax authority. If the taxpayer's income also includes income from sources abroad, the deadline may be extended by a maximum of six months.

## **Amended Tax Return**

- If a taxpayer discovers an error in their tax return resulting in a higher tax liability, or a lower tax loss, an amended tax return must be filed within one month of the month in which the error was discovered. Any additional tax must be paid by this deadline.
- If the taxpayer discovers an error in his favour in a filed tax return, an amended tax return may be filed under certain conditions.
- From 2016, an amended tax return may also be filed within 15 days of the start or extension of a tax control.

## **Payment**

- The tax balance due for a fiscal year is payable by the general or extended tax return filing deadline.
- A company must also pay corporate income tax advances if its last known tax liability for the taxable period exceeded EUR 2,500
- Advances are payable:
  - Quarterly (one-fourth of the last known tax liability) if the last known tax liability was between EUR 2,500 and EUR 16,600; or
  - Monthly (one-twelfth of the last known tax liability) if the last known tax liability exceeded EUR 16,600.

- Withholding tax applicable to certain income types (e.g. dividends, bank interest, monetary and in-kind supplies received by healthcare providers, their staff and healthcare workers) is considered a final tax and cannot be treated as a tax advance. Withheld tax may be treated as a tax advance in some cases.

### **Fines and Penalties\***

- The amount of a penalty for some administrative tax delinquencies is subject not only to the reported tax difference, but also to a significant extent by the length of the period during which the tax was reported incorrectly. For example, this relates to situations where the tax reported in the tax return is increased by an amended tax return, or if the tax authority initiates a tax control, or imposes additional tax as a result of the control.
- A penalty will be imposed of a maximum of 1% of the assessed amount, however, at a maximum of 100% of the assessed amount.
- A penalty for certain administrative delinquencies will continue to be assessed at a flat rate, such as for a late filing or a failure to meet other non-monetary obligations.
- A system of collective penalties is introduced for more than one administrative delinquency.
- In some cases, where the taxpayer intentionally reduces his tax liability by using incorrect pricing in controlled transactions, the tax authorities may double the penalty.

\* Based on the Tax Order, these sanctions also apply to other taxes than corporate income tax, e.g. VAT.

## Transfer Pricing

### General Principles

- Prices in controlled transactions between related parties must be set at fair market value (arm's length principle) for income tax purposes.
- A controlled transaction is a legal relationship or other relationship between two or more related parties, where at least one party is a taxpayer with income from entrepreneurial activities and other self-employment activities (§ 6) or a legal entity which gains taxable income (profit) from activity or from the use of its assets. When assessing a controlled transaction, the tax authority focuses on its substance.
- A related party (an individual or a legal entity) is a relative, a party economically or personally related, or a party otherwise connected (an "other relationship" arises if the parties have established a legal relation or transaction, in particular for the purpose of decreasing the tax base or in-creasing the tax loss).
- A taxpayer may request the tax authority for unilateral or multilateral approval of its transfer pricing method for recognition of a controlled transaction. Multilateral approval of the transfer pricing method for recognition of a controlled transaction is granted in accordance with the application of the particular double tax treaty. The fee for unilateral approval is EUR 10,000 and EUR 30,000 for multilateral approval based on application of a double tax treaty is.
- The tax authorities may increase the tax base and assess penalties if they ascertain that arm's length prices were not used in transactions between related parties, and this has resulted in a reduction of the Slovak entity's tax base, or an increase of a tax loss. If a taxpayer intentionally did not use arm's length prices, penalties on taxpayers may be doubled.
- From 2017, the Income Tax Act sets out specific circumstances, when tax-payers with unlimited tax liability are obliged to automatically adjust their tax base for controlled transactions and inform tax authorities about such an adjustment in writing.

### Transfer Pricing Documentation

- Taxpayers must retain transfer pricing documentation in a specified scope. They must present such documentation to the tax authorities upon request within 15 days of a request. The tax authorities may only send a request to present the documentation after the deadline for filing the tax return for that taxable period.
- The Slovak Ministry of Finance defines the content and scope of such documentation and taxpayers must keep one of the following types of documentation: shortened, basic, or full scope.

- From 2015, maintaining transfer pricing documentation is mandatory for domestic and cross-border controlled transactions between related parties.

### **CbCR – Country-by-Country Reporting**

- Following the European Commission's package of measures against tax evasion and profit shifting ("BEPS"), an amendment to the Act on Inter-national Assistance and Cooperation in Tax Administration introduced the Country-by-Country Reporting ("CbCR" or "CbC Report") standard, effective as of 1 March 2017.
- CbCR applies to a multinational enterprise (MNE) whose total consolidated revenues, according to its consolidated financial statements for the previous year, are a minimum of EUR 750 million. If this condition is met, the relevant Slovak company which is a member of such a multinational group and also meets the definition of a "basic entity" set out in the amendment and is not obliged to file the CbC Report itself must notify the Financial Directorate which affiliated company will submit the CbC Report for the financial year starting on 1 January 2016. The notification must be delivered to the Financial Directorate by the deadline for filing a corporate income tax return.
- The parent or surrogate parent entity must submit the CbC Report within 12 months of the last day of the MNE's notified financial year.
- The amendment also introduces the concept of a secondary obligation, which delegates the obligation to submit the CbC Report to a surrogate parent entity, or to another basic entity of the MNE if the parent or surrogate parent entity that is not the Slovak company does not prepare and submit the CbC Report in the country of its tax residence. Therefore, Slovak tax residents may also be required to prepare a CbC Report.
- A penalty of up to EUR 10,000 may be imposed on taxpayers if they fail to submit a CbC Report. A penalty of up to EUR 3,000 may be imposed for failure to meet the notification requirement. Both penalties may be levied repeatedly.

## **Corporate Taxation of Foreign Entities**

### **General Principles**

- Slovak tax non-residents are only subject to Slovak tax on income generated in Slovakia. This income also includes certain services provided via a digital platform.
- A double tax treaty may wholly or partially eliminate double taxation of the income of Slovak tax non-residents earning income from Slovak sources.



## Branch of a Foreign Entity

- The founder of a branch must, to the same extent as a Slovak company, register for tax, file a tax return, and pay tax and tax advances. A branch must apply Slovak accounting procedures.
- The rules for taxing a permanent establishment must also be appropriately applied to a branch.

## Permanent Establishment

- A permanent establishment need not be entered in the Slovak Commercial Register, but a foreign entity with a Slovak permanent establishment is a taxable entity in Slovakia.
- A permanent establishment is created if:
  - A foreign company uses, either continually or repeatedly, a permanent place or facility for carrying out its business activities in Slovakia; or
  - A foreign company repeatedly mediates transportation and accommodation services via a digital platform; or
  - An individual acting on behalf and in the name of a foreign company repeatedly mediates or plays a leading role in concluding contracts or negotiating contract details; or
  - The period of providing services by the foreign company or by individuals working for this foreign company in Slovakia is longer than 6 months in any consecutive 12-month period.
- The conditions for creating a permanent establishment may be regulated in more detail by a double tax treaty.
- A foreign entity with a Slovak permanent establishment has the same tax registration, filing, payment, and tax advance payment obligations as a Slovak company.
- The tax base of a foreign company's permanent establishment may not be less than one that which would have been achieved if it performed similar activities under similar conditions as an independent entity (e.g. a Slovak company).



Christiana  
Serugová



Rastislava  
Krajčovičová



Radoslav  
Krátky



Margaréta  
Bošková



Dagmar  
Haklová



Eva  
Fričová



Valéria  
Kadášová



Zuzana  
Maronová



Samarkanda  
Romero y Cordero



Gabriela  
Kubicová



Tomáš  
Alaxin



Zuzana  
Šátková



**Your success  
is really  
important  
to us.**



## Withholding Tax and Tax Securement

- The following payments are subject to withholding tax when made by Slovak companies to foreign parties.

	Standard rate	Non-contractual state*
Dividends	7%**	35%
Fees for services provided in Slovakia (unless provided by a permanent establishment)	19%	35%
Fees for advisory services (business, technical, other), data processing, marketing, management and intermediary activities, i.e. services provided without physical presence	19%	35%
Licence fees (royalties)***	19%	35%
Interest on loans and deposits***	19%	35%
Rental fee for movable assets	19%	35%

\* Income paid to a resident of a country not included in the list issued by the Slovak Ministry of Finance or a country that has neither a double tax treaty nor a treaty on the information exchange relating to taxes with Slovakia is subject to a 35% tax rate.

\*\* Only if dividends are paid to an individual.

\*\*\* Interest and licence fees paid to related parties resident in the EU are not subject to withholding tax if certain conditions are met.

- However, a double tax treaty may reduce the withholding tax rate.
- Some taxpayers (mostly EU tax residents in) may treat the tax withheld on certain types of income as a tax advance and deduct it in their tax return.
- Individuals or legal entities may be obliged to withhold a securement tax on certain Slovak source income of Slovak non-residents if these persons are not tax residents in another EU member state.
- The tax office will issue a confirmation of a withholding or security tax payment on request.

## State Aid and Investment Incentives in Slovakia

### Investment Incentives

- Investment incentives available under Slovak law are available for projects in the following areas:
  - Industrial production;
  - Technology centres;
  - Shared service centres; and
  - Tourism.

### Industrial Production

Unemployment rate*	Minimum investment amount (mil. EUR)	Percentage of new technological equipment (%)	Minimum number of new jobs	Minimum investment amount that must be covered by equity (%)
Lower than Slovak average	10	60	40	50
Higher than Slovak average	5	50	40	50
At least 35% higher than Slovak average	3	40	40	50
Least-developed regions	0.2	30	10	50

\* For the purpose of granting investment aid, the unemployment rate is calculated from the total number of job seekers published by the Head Office of Labour, Social Affairs, and Family for the year preceding the year in which the investment plan was filed.

### Technology Centres

Minimum investment amount (mil. EUR)	Minimum percentage of employees with a university education (%)	Minimum number of new jobs	Minimum investment amount that must be covered by equity (%)
0.5	70	30	50

## Shared Service Centres

Minimum investment amount (mil. EUR)	Minimum percentage of employees with a university education (%)	Minimum number of new jobs	Minimum investment amount that must be covered by equity (%)
0.4	60	40	50

## Tourism

Unemployment rate*	Minimum investment amount (mil. EUR)	Percentage of new technological equipment (%)	Minimum number of new jobs	Minimum investment amount that must be covered by equity (%)
Lower than Slovak average	10	40	40	50
Higher than Slovak average	5	40	20	50
At least 35% higher than Slovak average	3	40	20	50
Least-developed regions	0.2	5	20	50

\* For the purpose of granting investment aid, the unemployment rate is calculated from the total number of job seekers published by the Head Office of Labour, Social Affairs, and Family for the year preceding the year in which the investment plan was filed.

- The following investment incentives, all of which are considered state aid, are available:
  - Cash grants for purchasing non-current tangible and intangible assets;
  - Corporate tax credit – this incentive may be applied over no more than 10 subsequent taxable periods. A tax credit may be applied for the first time for the taxable period in which the decision on granting the investment aid was issued (provided that all legal requirements are met).
  - Financial support for creating new jobs.

- The main conditions that must be met by applicants for investment incentives are:
  1. Establishment of a new operation, extension of, diversification of, or major production change in an existing operation;
  2. Minimum investment costs, the level of which depends on the investment type and the region in which the investment will be implemented. For small and medium companies, the level of the minimum investment costs are reduced by half;
  3. Consideration of the required share of production facilities and/or the proportion of employees with a university education and depending on the type of project and specific region;
  4. Creation of required number of new direct jobs;
  5. For expansion projects in industrial production, increase of manufacturing capacity by at least 15%;
  6. The investment project must be implemented within 3 years of the approval of the investment incentives (major investment projects, i.e. projects with eligible costs exceeding EUR 50 million, must be implemented within five years);
  7. Work on the project may start only after submission of an investment plan to the Slovak Ministry of Economy, otherwise investment aid cannot be granted.
- The maximum amount of investment aid is as follows:
  - Western Slovakia – 25% of overall eligible costs of the investment;
  - Central and Eastern Slovakia – 35% of overall eligible costs of the investment;
  - No investment incentives for the Bratislava region.
- Given intensities may be increased by 10% for medium-sized enterprises and by 20% for small enterprises. Such an increase is subject to an assessment by the Slovak Ministry of Economy.

## **Super-deduction of R&D Costs (New rules for taxable periods beginning on or after 1 January 2018)**

- Taxpayers who perform R&D activities may apply for a special form of support – the super-deduction of R&D costs.
- According to new legislation regarding R&D projects, the total of the following items may be deducted from the tax base adjusted by the tax loss deduction:
  - **100% of R&D costs** incurred in the taxable period for which the tax return is filed;
  - **100% of positive difference** between the average of the total R&D costs incurred:
    - In the taxable period for which the taxpayer applies super-deduction, and in the immediately preceding taxable period, and
    - In two immediately preceding taxable periods.
- If a tax loss is recorded or if the tax base after the tax loss deduction is lower than the available deduction, the deduction may be applied in the next taxable period in which the taxpayer reports a positive tax base, however, this may not exceed four taxable periods immediately following the period in which the entitlement to make a deduction arose.



## **Other Taxes**

### **VAT**

#### **VAT Registration**

- The threshold for obligatory VAT registration for taxable persons with their seat or permanent address, place of business, or permanent establishment in Slovakia, is a turnover of EUR 49,790 for the previous consecutive 12 calendar months. Voluntary registration is also possible, which may be subject to a tax securement.
- A VAT registration obligation in Slovakia may arise for foreign persons (taxable persons without a seat or VAT establishment in Slovakia) if, for example, they supply goods to Slovakia as a mail order service, or prior to the supply of goods or services provided that the tax obligation is not transferred to the recipient.
- Any taxable person who is not a VAT payer, or a legal entity who is not a taxable person must, in some cases, (such as receipt/provision of certain services from/to another EU member state and acquisition of goods from another EU member state) file an application for VAT registration for the purposes of paying VAT or reporting the supply of services.
- Automatic VAT registration has been introduced for taxable persons who supply a building, a part thereof, or building land, who are not VAT exempt, and a turnover of EUR 49,790 will be achieved from the supply.
- Taxpayers must notify the tax authority of the change in registration in the event of the creation/termination of a VAT establishment within 10 days of the change.
- In some instances, VAT registration may be subject to tax securement.
- Correction of the VAT treatment of transactions carried out before the registration and input VAT deduction is available in some instances.
- From 1 January 2018, the possibility of special tax representation is available for foreign persons not registered for VAT in Slovakia.
- The tax representative option may be used by a foreign person who acquires goods from another EU-member state in Slovakia with the purpose of delivering these goods to another EU member state or a third country with VAT exemption, or delivering them via mail order service with a place of delivery in another EU member state.
- A foreign person represented by a tax representative need not to register for VAT in Slovakia if the following conditions are met. The tax representative files one common VAT return, Control Statement, and EC Sales List on behalf of the represented foreign persons.

## **VAT Group**

- A VAT group may be created in Slovakia. This option enables persons who are financially, economically, and organisationally interconnected and have their seat or permanent establishment in Slovakia, to register for Slovak VAT as a single VAT payer. As a result, transactions within the VAT group are not subject to VAT.

## **Call-off Stock Simplification**

- A simplified call-off stock scheme applies where a foreign supplier registered for VAT in an EU member state (other than Slovakia) transfers their own goods from another EU member state to a warehouse in Slovakia in order to supply them to a single Slovak VAT payer. If the foreign entity meets all the requirements set out in the Slovak VAT Act for applying a call-off stock regime, he need not register for Slovak VAT. In this case, the customer must apply a reverse charge and pay VAT on the acquisition of goods in Slovakia.

## **VAT Rates**

- The standard VAT rate of 20% applies to most goods and services. A reduced rate of 10% applies to certain basic foodstuffs (e.g. meat, milk, and bread), pharmaceutical products, certain medical aids, depending on the commodity code (as listed in Annex 7 of the VAT Act), certain books, and similar products.

## **Special VAT Treatment - Cash Accounting**

- From 2016, certain local taxpayers may use a special approach for claiming VAT on a sale based on the receipt of payment for goods or services (cash accounting).
- When using this scheme, a tax liability only arises to the supplier of goods or services on the day that payment for goods or services is received. Input VAT may be deducted by a VAT payer who applies this scheme on the day on which an invoice is paid. Similarly, a tax liability arises for all VAT payers who receive an invoice from a supplier who applies this special treatment, on the day their supplier receives the payment.

## **Reverse Charge in the Construction Industry**

- For certain supplies between two Slovak VAT payers in the construction industry, a transfer of the tax liability to the recipient has been introduced (reverse charge). This concerns, inter alia, the supply of construction work, the supply of buildings, the supply of goods with assembling or installation, provided they are included in a special statistical classification.

- When providing such supplies, the supplier does not charge VAT on the invoice, and the obligation to assess the VAT is transferred to the recipient (VAT payer), who may claim the input VAT deduction upon compliance with legal requirements.
- Since 1 January 2017, a general pardon has been issued to provide a degree of certainty for entities in the construction sector when applying the reverse charge. The recipient of a service must automatically apply a reverse charge on received construction work, provided that the supplier could reasonably assume that the service was subject to a reverse charge mechanism, and a “reverse charge” reference was stated in the invoice.
- Additionally, from 1 January 2017, suppliers of such construction work are obliged to report issued invoices for the supply of construction work in section A.2 of a VAT Control Statement, although they need not be reported in a VAT return.

### **Exempt Supplies**

- Exempt supplies for which input VAT cannot be deducted include postal services, financial and insurance services, educational services, radio and TV broadcasting services, health and social services, the supply and lease of real estate (with some exceptions), and lotteries and similar games.
- Exempt supplies for which input VAT may be deducted include, for example, the following transactions:
  - Intra-Community supply of goods;
  - Financial and insurance services if provided outside the EU;
  - Triangulation transactions;
  - Transport of passengers in certain cases; and
  - Export of goods outside the EU.
- The sale of construction land is not VAT exempt. The sale of buildings, including the construction land on which the building is to be built is VAT exempt, after five years from their official final inspection and occupancy approval, or from their first use. However, a VAT payer may decide not to apply such an exemption on such a supply (in such a case, the tax liability is transferred to the recipient). Since 1 January 2018, a VAT payer is obliged to notify a customer about such a decision in writing. The rent of real estate (with some exceptions, such as a parking space) is VAT exempt. A VAT payer may decide to charge VAT on the lease of a building to another taxable person.

## Input VAT Deduction

- A VAT payer may deduct input VAT relating to a received taxable supply that he intends to use for taxable supplies of goods and services on which a deduction may be claimed.
- A VAT payer may not deduct input VAT on goods and services to be used for exempt supplies for which input VAT may not be deducted.
- A partial deduction based on a coefficient calculated under the law applies to purchases of goods and services used on taxable supplies, on which input VAT deduction may be claimed, and on those on which input VAT deduction may not be claimed.
- Input VAT deduction relating to the acquisition of certain non-current assets must be adjusted if the purpose of use of such assets changes within five years of acquisition (20 years for real estate).
- A VAT payer may not deduct input VAT for entertainment and refreshments costs.

## VAT Compliance

- VAT is administered by the tax authorities, except for import VAT, which is administered by the customs office.
- A valid VAT document (invoice) must be issued for every supply of goods or services to a taxable person, and for mail order services within 15 days of the supply of goods or services or receipt of payment prior to their supply. An invoice may also be issued and received in electronic form. An amending document must be issued within 15 days of the end of the calendar month in which the event occurred that gave rise to a change to the tax base.
- A VAT payer must be able to document the authenticity of origin, integrity of content, and readability of an invoice from its issue until the end of the invoice archiving period.
- VAT returns must be filed on a monthly basis. A VAT payer may decide on a quarterly filing period provided that more than 12 months have elapsed from the end of the calendar month in which they became a VAT payer, and their turnover was less than EUR 100,000 over the preceding 12 consecutive calendar months.
- 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.
- Since 1 January 2018, the VAT tax return form has been changed due to the introduction of a new tax representation option for foreign persons.
- In some instances, a VAT payer is liable for the tax shown on an invoice if the supplier fails to pay the tax to the tax office, or if the supplier became unable to pay the tax and the taxpayer knew, or could have known, that the tax would not be paid. From 2018, a reason for being liable to pay the tax is no longer the fact that, at the time of the taxable supply, the supplier was stated on the list of taxpayers for whom reasons for deregistration have arisen.

## EC Sales List

- VAT payers must submit EC sales lists if they make intra-community supplies of goods from Slovakia to another EU member state, transfer own goods from Slovakia to another EU member state, participate in a triangulation trade as the first customer, or provide services with the place of supply in another EU member state to another taxable person and this person is obliged to pay the VAT.
- A VAT payer may submit an EC sales list for a calendar quarter if the value of goods does not exceed EUR 50,000 in the respective quarter and the four previous concurrent calendar quarters. If the threshold is reached, a monthly EC sales list must be submitted.
- EC sales lists must be submitted within 25 days of the end of the period to which they relate, and must be filed electronically.

## Control Statement

- All taxpayers (including foreign persons registered for VAT in Slovakia) must present a control statement in electronic form. The control statement is a detailed list of all invoices issued and received.
- A control statement must be filed in electronic form by the 25th day after the end of the relevant taxable period.
- A control statement does not contain information about intra-community supplies of goods and services, or imports and exports of goods. A control statement need not be filed if only specific transactions are reported in the tax return (e.g. intra-community supply of goods, export of goods or supplies within triangulation) and where input VAT is not subject to deduction, or if only VAT deduction is reported on the import of goods.
- The tax authority may impose a penalty of up to EUR 10,000 for not filing a control statement, its late payment or for incomplete or incorrect data in a control statement. The maximum penalty for a recurrent breach of this obligation is EUR 100,000.

## Obligation of Electronic Filing

- From 2014, all tax entities who are VAT payers or are represented by a tax advisor, attorney or other person, must deliver submissions to the tax authority in electronic form, whether signed by a guaranteed signature or without a guaranteed signature. In the latter case, an Agreement on Electronic Filing is obligatory.
- Since 1 January 2018, the obligatory electronic communication with tax authorities is extended to all legal entities listed in the Slovak Commercial Register. As of 1 July 2018, this obligation will also apply to individual entrepreneurs.

## **VAT Refunds**

### **VAT Refund for Slovak VAT Payers**

- A VAT payer is not automatically entitled to a cash VAT refund if he reports a VAT refund. If the VAT refund cannot be fully offset in the following VAT period, then the tax authorities will refund the excess input VAT, or part thereof, within 30 days of the filing of the VAT return for that following VAT period, provided that the tax authorities did not open a tax control prior to that date.
- However, if certain conditions are met, the tax office must refund the VAT within 30 days of the day of the filing of the VAT return (i.e. in a shorter period).

### **VAT Refund for Foreign VAT Payers from Another EU Member State**

- A foreign VAT payer from another EU member state may claim Slovak VAT via the VAT refund scheme for foreign persons not registered for VAT in Slovakia.
- A request must be filed by 30 September of the calendar year following the period for which the VAT refund is claimed.
- A VAT refund claim must be submitted for a period no longer than one calendar year, and the total amount of VAT claimed must be at least EUR 50.
- A foreign VAT payer is entitled to a deduction of input VAT via a VAT return provided that the above stated requirements for a VAT refund via the VAT refund system to foreign VAT payers are met.

### **VAT Refund for Foreign Entities from Non-EU Countries**

- An entity registered for VAT, or a similar general consumption tax, in non-EU countries may claim a refund of Slovak VAT paid on the purchase of certain goods or services, under certain conditions stipulated by law.
- A VAT refund may be claimed by submitting a request to the Bratislava Tax Office by 30 June of the calendar year following the year for which the refund is claimed. The total amount of the VAT claim must be at least EUR 50.
- A decision regarding a VAT refund must be issued to the foreign company within six months of the date on which the refund request was filed.
- VAT is refunded to entities from non-EU countries which have concluded reciprocity agreements with Slovakia.

## Compensation for VAT Refund Retention

- From 2017, an entitlement for financial compensation for VAT payers is in place – interest on a VAT refund retained during a tax inspection (if a tax office opened a tax inspection during the statutory period for VAT refund) that lasts longer than 6 months.
- The interest rate is double the base interest rate of the European Central Bank, or a minimum of 1.5% p.a.

## Excise Duties

### Goods Subject to Excise Duties

- Slovak excise duty is payable on the import of the following goods into Slovakia from outside the EU, or when these goods are released from the duty suspension regime for tax-free circulation in Slovakia:
  - Mineral oil;
  - Alcoholic beverages (beer, wine, intermediate products, and spirits);
  - Tobacco products;
  - Electricity, coal, and natural gas.
- An excise duty liability for electricity, coal, and natural gas arises at the moment the product is delivered for final consumption.
- The rate of excise duty depends on the specific type of product.
- In certain limited cases, the products listed above are exempt from excise duty.

### Authorised Entities

- An excise duty suspension arrangement enables the tax liability to be postponed until the day the product is released into a tax-free circulation regime.
- The production, processing, storage, receipt, and dispatch of products under the duty suspension arrangement must be carried out by an authorised warehouse keeper.
- Companies must register as a licensed recipient before obtaining excisable products from another EU member state under the duty suspension regime.
- A tax guarantee must be lodged with the Customs Administration for transactions under the duty suspension regime (storage and transport).
- The company must be authorised to use excisable products exempt from excise duty.

## Registration

- An excise taxpayer must be registered with the customs office. Entities to which a tax liability has not arisen, but which transact in goods subject to excise tax, must also register.
- Entities wishing to produce, store, receive, or send products subject to excise duty under the suspension arrangement must register with the customs office and lodge the required tax guarantee before authorisation can be granted.
- Companies using excisable products exempt from excise duty must register with the respective customs office, and apply for a licence and a voucher. The company then provides the voucher to its supplier, who may then provide the excisable products free of excise duty.
- Based on authorisation from the customs office, the registered consignee is entitled to dispatch the goods under suspension after they are released into tax-free circulation. He may not receive or store excisable goods.

## Excise Duty Compliance

- The excise duty administrator is the Customs Authority. Communication with the Customs Authority must be in electronic form if the company is a VAT payer registered in Slovakia, or if it is represented by a tax adviser or attorney.
- Communication with taxpayers regarding excise duties is undertaken by e-mail.
- The taxable period is usually a calendar month.
- Monthly excise duty returns must be filed within 25 days of the end of the taxable period, and excise duty liabilities must also be paid within this period. However, this obligation does not arise in certain specific cases.

## Excise Duty Refunds

- In certain circumstances, a tax warehouse keeper, or another authorised entity, may claim a refund of Slovak excise duty on a product that has been taxed. As a rule, this applies if excisable products released for tax-free circulation in Slovakia are supplied for use in another EU member state, or are used for purposes exempt from excise duty.



## Custom Duties

### General Principles

- Goods imported from non-EU countries are subject to import customs clearance.
- Goods exported from the EU customs territory must be declared for export customs clearance.
- The person responsible for paying the customs debt is the declarant.
- The declarant is the person submitting the customs declaration in his own name, or the person in whose name the customs declaration is submitted.
- A customs declaration must be submitted in the prescribed form and manner (electronically, in writing, or otherwise).
- Import or export duties are customs duties and other charges payable on the import or export of goods (import VAT, excise duties, and charges with similar effect).
- The customs authorities require declarants to provide a guarantee to cover a customs debt if a customs debt has arisen or may arise in future. A customs guarantee may be made in cash, or provided by a guarantor.
- For communication with the customs offices, each person must be identified by an EORI number (Economic Operator Registration and Identification Number) allocated by the customs authorities on request. EORI registration is mandatory for customs clearance.
- Export, import, and transit customs clearance is based on the electronic information exchange. Import customs clearance using paper customs declarations may be carried out in Slovakia until 2019.

### Right of Representation

- Any person may appoint a representative in his dealings with the customs authorities. Such representation may be direct or indirect.

### Customs Procedures

- The declarant may propose to release goods into free circulation, or place such goods under an export customs procedure. Depending on the intended purpose of goods, the following special customs procedures may be applied:
  - Transit (external, internal);
  - Storage (customs warehousing, free zones);
  - Specific use (temporary admission, end-use); and
  - Processing (inward processing, outward processing).

## Customs Debt

- A customs debt arises at the time of acceptance of a customs declaration by:
  - Releasing goods liable to import duties into free circulation, including the release of goods according to the final usage provision; or
  - Placing such goods under the temporary import procedure with partial relief from import duties; or
  - Re-exporting goods after terminating the drawback custom regime.

A custom debt also arises when failing to meet obligations or to comply with the terms and conditions set out in the custom regulations.

- The debtor is the declarant and, in case of indirect representation, the representative is also the declarant. As a rule, the debtor must pay customs duty within 10 days from the day on which the notification of the customs debt was delivered to the debtor.

## Simplifications

- To simplify formalities and procedures, the customs authorities may grant permission to use the following simplified procedures:
  - Simplified customs declaration;
  - Centralised customs clearance;
  - Entry in the declarant's records;
  - Self-assessment.
- The status of an Authorised Economic Operator allows the simplification of customs procedures in various areas and its holder is considered a reliable partner of the customs authorities.
- The Registered Exporter System (REX) enables economic operators to self-certify preferential origin of goods. This certificate replaces the certificates used until now (certificates on the A and EUR.1 forms).

## Violation of Custom Regulations

- If a legal entity commits a customs offence (e.g. non-compliance with the customs regime conditions), the customs office may impose the following sanctions:
  - Penalty; or
  - Seizure of goods or property.
- For a customs offence, a fine of up to EUR 99,581.75 may be imposed, depending on the seriousness of the violation (in specific cases, up to EUR 331,939.18).

- If an individual commits a customs offence (e.g. illegal import of goods), the customs office may also reprimand the person (in addition to imposing fines or seizing goods or property). The imposed fine may be up to EUR 3,319.39, depending on the seriousness of the violation (in specific cases, up to EUR 33,193.91).

## Motor Vehicle Tax

- Motor vehicle tax is payable to the tax office where a car was registered at 31 December of the preceding year. Employee motor vehicle tax is subject to the employer's tax jurisdiction.
- Taxable vehicles are those registered in Slovakia and used for business purposes.
- As a rule, motor vehicle tax is payable by the car holder. In specific cases, it is payable by the individual who uses the car for business purposes even if he is not the car holder (e.g. the car holder's employer).
- Annual tax rates are set for:
  - Passenger cars, based on engine capacity in cm<sup>3</sup>; and
  - Utility cars and buses, based on the number of axles and the vehicle's total weight.
- The annual tax rate is uniform across Slovakia. The rate changes depending on the time since the first registration. A reduced tax rate applies to cars used for intermodal transportation and/or using an ecoengine.
- The taxable period is a calendar year.
- A taxpayer must file a tax return and pay the tax liability for the previous year by 31 January. The taxpayer must enter the commencement and termination of the tax liability in the tax return.
- The taxpayer must pay monthly and/or quarterly tax advances depending on the amount of expected tax to a single tax administrator, provided the expected tax exceeds EUR 700.
- The Act on Administration Fees regulates the fee for initial and each sub-subsequent vehicle registration by a car holder in the L, M1, and N1 categories in the Slovak vehicle register. The fee ranges from EUR 33 to EUR 3,900 depending on the engine power of the registered car, its age, and other details.

## Real Estate Tax

- Real estate tax is governed by the Act on Local Taxes, and is divided into:
  - Land tax;
  - Building tax; and
  - Apartment tax.

### Land Tax

- As a rule, the land's registered owner pays the land tax. In certain cases, it is paid by the land manager or the lessee.
- The basic tax rate is 0.25% of the land value set by law. The municipality usually modifies this rate, and different rates apply to different land types.

### Building Tax

- As a rule, the building's registered owner pays the building tax. In certain cases, it is paid by the property manager or a lessee.
- The basic tax rate is EUR 0.033 per m<sup>2</sup> of land occupied by the building. The municipality usually modifies this rate (within the set limits) in a generally binding regulation.
- Car parks, including underground car parks, are also subject to building tax.

### Apartment Tax

- As a rule, the apartment's registered owner pays the apartment tax. In certain cases, it is paid by the property manager.
- The basic annual tax rate is EUR 0.033 per m<sup>2</sup> of the apartment's floor area. The municipality usually modifies this rate in a general binding regulation.

### Common Provisions for Land, Building, and Apartment Tax

- 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 tax.
- Taxpayers must file a tax return by 31 January of the taxable period in which the tax liability arises, relating to their tax liability at 1 January of this period. If a change occurs in the next taxable period, such as the acquisition of new property, a change of the type or area of declared property, the taxpayer must file a partial tax return by the same deadline. The obligation to file a tax return during the taxable period arises upon acquisition of property by inheritance.

- If the taxpayer finds out that the data in a filed tax return based on which the tax liability is calculated is incorrect, then he is obliged to file an amended tax return no later than four years after the end of the year in which the obligation to file a tax return or a partial tax return arose.
- As a rule, a tax liability is payable within 15 days after a tax assessment became valid.

## **Bank Levy**

- Since 2012, banks and branches of foreign banks must pay a special levy payable by certain financial institutions (the bank levy). The bank levy for 2017 - 2020 is 0.2% p.a. of the base set by law.
- A bank is obliged to pay the levy in four quarterly payments by the 25th day of the respective calendar quarter.
- The tax office is the bank levy administrator.

## **Special Levy**

- A legal entity or branch of a foreign entity authorised to do business in regulated industries (such authorisation must be issued in Slovakia or another EU or EEA member state) which expects to carry out its business activities over the entire levy period and whose total annual result of operations exceeds EUR 3 million is obliged to pay a special levy on doing business in regulated industries.
- Regulated business sectors include the following: power industry, insurance, re-insurance, public health insurance, e-communication, pharmaceutical industry, postal services, rail transport, public water and drainage systems, air transport, and healthcare provision.
- A monthly levy is calculated by multiplying the levy base, i.e. the pre-tax operational result multiplied by a coefficient, and the levy rate of 0.00726%.
- The levy rate for 2019-2020 should be decreased to 0.00545% and from 2021 to 0.00363%.
- The tax office responsible for the administration of the corporate income tax is also the levy administrator.

## Levy on Non-Life Insurance Premiums

- Insurance companies, insurance companies from other EU member states and branches of foreign insurance companies must pay a levy of 8% on insurance premiums received from non-life insurance sectors (except for mandatory motor vehicle insurance, where the 8% levy is also applied but its administration and payments are subject to various rules). This is applicable for insurance premiums received based on contracts concluded after 31 December 2016.
- The 8% levy for January to November is payable by the end of December of the respective calendar year, and the levy for December is payable by the end of January of the following year.
- The Tax Office for Selected Taxpayers is the levy administrator.

## FATCA and CRS

- In the context of the global fight against tax evasion, Slovakia participates in administrative cooperation with other countries regarding automatic information exchange between tax administrators of individual countries.
- In connection with this automatic information exchange, Slovak financial institutions have under FATCA (i.e. American Foreign Account Tax Compliance Act) and CSR (Common Reporting Standards) the obligation to collect and report selected information on financial accounts.
- For FATCA purposes, Slovakia has adopted a bilateral intergovernmental agreement for mutual cooperation between Slovakia and the US on reciprocal exchange of information on financial accounts. As part of this cooperation, Slovak financial institutions are obliged to report information on American accounts to the Slovak Financial Directorate. The Slovak Financial Directorate provides such information to the US Internal Revenue Service.
- For CRS purposes, Slovakia has acceded to a multilateral agreement on mutual exchange of information on financial accounts with EU member states and contractual states. The basic requirement is that if Slovak financial account holders are tax residents of certain countries then our financial institutions are obliged to report selected information to the respective tax authorities – the list of such countries is published on the Slovak Financial Directorate's and the Slovak Ministry of Finance's websites. CRS-related obligations result from local legislation and the DAC2 EU Directive.

## Local Fee for Development

- The Local Fee for Development Act gives municipalities the right to introduce and collect such a fee. A municipality is entitled to set this fee for its entire territory or part thereof by adopting a generally binding regulation.
- Each builder who receives a valid building permit for the respective municipality must pay the local fee for development.
- The basis for calculating this fee is the size of the aboveground floor area of the construction in square meters. The rate varies between EUR 10–35 per m<sup>2</sup>.
- The local fee for development is administered by the municipality which imposed it on its territory.

## Notes



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