



# Pocket Tax Book

Slovakia, 2010

This booklet is based on the tax law as at 1 January 2010. 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.



**Todd Bradshaw**  
Country Managing Partner

After a year, we are delighted to present the 2010 Pocket Tax Book which provides a concise summary of the Slovak tax rules. The Pocket Tax Book covers the key aspects of taxation including corporate tax, personal tax, VAT, excise duties, and customs. We have also included information on potential State Aid available for investments in Slovakia.

Our tax team of more than 60 staff are ready to answer any specific questions you may have.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Todd Bradshaw". The signature is fluid and cursive, written in a professional style.

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# INDIVIDUALS

## Personal Income Tax

### GENERAL PRINCIPLES

- Slovak tax residents pay Slovak tax on their worldwide income, subject to relief under Slovak law or an applicable double tax treaty.
- 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 has permanent residence in the Slovak Republic („SR“, as evidenced by a Slovak ID card (for Slovak nationals), or by a permanent residence permit (for expatriates); or
  - He 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 acting as a statutory representative of a 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.



## INDIVIDUAL TAX BASE, TAX LOSSES

- Individual income from different sources, such as employment income, entrepreneurial and rental income, capital income and other income, forms an individual's overall tax base.
- 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.
- Losses arising from business or rental property can be offset against other sources of income, with the exception of employment income. If an overall loss is realized, it can be carried forward and offset against taxable income arising from most types of non-employment income in the following seven years.

## TAX ALLOWANCES

Personal allowance			
Entitlement:	Each taxpayer		
Applicable for tax base:	Under € 15,387.12:	€ 15,387.12 to € 31,489.92:	Over € 31,489.92:
Applicable personal allowance amount:	€ 4,025.70	Progressively decreased	€ 0.00
Dependent spouse allowance			
Entitlement:	Slovak tax resident with permanent residence in Slovakia sharing a household with a spouse		
Applicable for tax base:	Below € 31,489.92:	€ 31,489.92 to € 47,592.72:	Over € 47,592.72:
Applicable spouse allowance:	Positive difference between amount of € 4,025.70 and spouse's income	Progressively decreased	€ 0.00

### Tax bonus for dependent children

Entitlement:	Slovak tax resident with permanent residence in Slovakia for all dependent children living in his household, if he meets the criteria for the minim tax base.
Applicable for tax base:	At least € 1,846.20
Tax bonus for one dependent child:	€ 20.00 monthly

### Employee bonus

Entitlement:	Individual employed for at least six months during the calendar year, with no other than employment income. Full bonus is obtained if the individual worked 12 months during the calendar year.		
Applicable for tax base:	€ 1,773.00 to		
€ 3,546.00:	€ 3,546.00 to € 4,025.70:	Over € 4,025.70:	
Applicable employee bonus:	€ 181.03	Progressively decreased	€ 0.00

## 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 2010, it is EUR 2,012.85) must submit a personal income tax return, unless he:
  - has no other income than that which is taxed by a withholding tax (such as Slovak bank interest);
  - is exempt from Slovak personal income tax; or
  - has his salary taxed through a Slovak payroll and, the employer prepares an annual tax reconciliation for him, provided the individual has no other taxable income.
- The filing and tax payment deadline is 31 March of the calendar year after the year in which the income is earned. An extension to the filing deadline can be requested up to June or September by filling a written request to the tax authorities, but granting of the extension is at the discretion of the tax authorities. The tax return deadline for 2011 can be automatically extended by submitting an announcement to the tax authorities.
- Husbands and wives must file separate tax returns.

## DONATIONS

- A taxpayer can donate 2% of his tax liability to a qualifying entity of his choice, by completing a form which is a part of the tax return form.

## 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 Insurance and Social Security

## HEALTH INSURANCE

- 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, and 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, and are not insured in another EU or European Economic Area member state or in 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 who are also mandatorily insured in that country;
  - those who are carrying out entrepreneurial activities abroad, and are also mandatorily insured in that country;
  - those who stay abroad for more than six months and who are insured in the other country.
- The regular monthly contributions to the health insurance system are treated as advance payments for the yearly liability, and are subject to an annual reconciliation of health insurance contributions, which should be filed by 31 March of the year following the year for which the health insurance advances were paid.

## SOCIAL SECURITY

- Slovak social security covers state pensions, and insurance for sickness, permanent disability, unemployment, injury and employer insolvency, as well as contributions to a reserve fund.
- The Slovak pension insurance system consists of three pillars. The first and second pillars are compulsory, while the third one is voluntary.

	Employee	
	Rate	Maximum monthly contribution in the period to 30 June 2010 (in Euros)
Sickness	1.4%	15.10
Unemployment	1%	28.90
Health	4%	86.76
Guarantee insurance	-	-
Reserve fund	-	-
<b>Total</b>	<b>13.4%</b>	<b>333.06</b>

	Employer	
	Rate	Maximum monthly contribution in the period to 30 June 2010 (in Euros)
Sickness	1.4%	15.10
Unemployment	1%	28.90
Health	10%	216.90
Guarantee insurance	0.25%	2.70
Reserve fund	4.75%	137.30
<b>Total</b>	<b>34.4%</b>	<b>892.40</b>

- In addition to these contributions, the employer must also make injury insurance contributions of 0.8% of employees' total salary costs per month.

# 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, adjusted for tax purposes.
- If the Slovak taxpayer is obliged to prepare its accounts under 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 not possible to use the standard method.

## NOT SUBJECT TO TAX

The following items are not subject to corporate tax:

- Dividends paid out of profits earned on or after 1 January 2004.
- Liquidation surpluses 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 from mergers and demergers.

## INCOME EXEMPT FROM TAXATION

Exempt income includes:

- Interest and certain other income from loans, bonds, etc. paid by Slovak tax resident legal entities to closely related EU entities, which are the beneficial owners of such income, provided certain relationships between the entities have existed for at least two years preceding the date when the interest is paid.
- Royalty payments made to closely related EU entities, which are the beneficial owners of such income, provided certain relationships between the entities have existed for 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. During a tax inspection, a Slovak translation of such documents may be requested.

### **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.
- Rental fees and commissions paid to individuals are tax deductible on a cash basis.

## TAX NON-DEDUCTIBLE ITEMS

- The tax law restricts the tax deductibility of certain expenses. Generally, these are expenses regarded as not related to generating taxable income.

## DONATIONS

- A taxpayer can donate up to 2% of its tax liability to a qualifying entity of its choice, by submitting a form (which is part of the tax return) stating the name of the recipient entity. The law sets out a gradual decrease in this percentage and the introduction of further conditions in the future.

## 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.

## INTEREST

- Interest, including interest on foreign related party loans, is generally tax deductible, subject to transfer pricing rules.
- 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).



- 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.
- IFRS compliant taxpayers have to keep transfer-pricing documentation in prescribed extent.

## FOREIGN EXCHANGE DIFFERENCES

- Foreign exchange differences booked through the profit and loss account and arising from the revaluation of unrealized receivables and payables as at year end are normally treated as taxable or tax non-deductible in accordance with their accounting treatment. However, they can be excluded from the tax base if the taxpayer notifies the tax authorities.

## TAX LOSSES

- A taxpayer can utilize a tax loss over a maximum of five (if the loss was reported by 31 December 2009) or seven (if the loss was reported after 31 December 2009) consecutive tax periods, starting with the tax period immediately following that in which the taxpayer reported the loss. Each year's tax loss should be considered separately, and can be utilized over its own five- or seven-year utilization 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 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, tools and implements
2	6	Pumps, cooling and freezing equipment, TV sets
3	12	Houses and buildings made of metal, turbines, air conditioning systems, ships
4	20	Buildings of a permanent nature

- Some parts of buildings can be selected as separate components for tax depreciation purposes.
- 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 during the leasing period.
- 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

## BUSINESS COMBINATIONS

- Slovak tax law recognizes two alternatives for the tax treatment of in-kind contributions to a company's share capital, and mergers and demergers. Any of these alternatives imposes a specific administrative burden on entities involved in these transactions.
- **Alternative 1: Step-up in the tax values of assets and liabilities**
  - A revaluation difference arising upon a revaluation of the transferred assets and liabilities to their fair values is taxable or tax deductible for the contributor (of an in-kind contribution) and the legal successor (for a merger or demerger). This difference must be reflected in the appropriate company's tax returns within seven years of the transaction.
  - The recipient of the in-kind contribution, or the legal successor in a merger or demerger, receives the assets and liabilities at their fair values for tax purposes.

- **Alternative 2: No step-up in the tax values of assets and liabilities**
  - Any revaluation difference arising at the time of the in-kind contribution, merger, or demerger is not taxable or tax deductible.
  - This alternative requires the recipient of an in-kind contribution, or a legal successor, to continue using the original tax book values of the assets and liabilities of the contributor, or the company wound up without liquidation through the merger or demerger.
- Any goodwill or negative goodwill acquired as part of the purchase of a business as a going concern should be included in the purchaser's tax base within seven tax periods.

## 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 only if certain conditions are met or for specific taxpayers.
- The total costs related to derivatives are tax deductible only up to the total income from these derivatives arising in the same tax period. However, costs related to (i) hedging derivatives or (ii) trading derivatives held by a taxpayer that has a licence issued by the state authorities to trade in securities, or held by insurance companies, are fully tax deductible.
- Most types of securities and derivatives 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 in the profit and loss account are 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 taxable in Slovakia, unless a relevant double tax treaty provides for a different treatment (which is often the case).

## INCOME FROM SECURITIES

### Dividend income

- Liquidation surpluses, settlement amounts paid to shareholders, and dividends received out of profits earned on or after 1 January 2004 are not subject to Slovak corporate income tax.

### Interest income

- Interest income is subject to 19% Slovak 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 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 closely related EU-resident 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 interest.

# Corporate Tax for Foreign Entities

## GENERAL PRINCIPLES

- Foreign entities are generally subject to Slovak tax on income generated in the Slovak Republic.
- Foreign entities can be subject to taxation by creating a permanent establishment, or being obliged to have withholding tax or tax securements withheld from Slovak-source income.

## ELIMINATION OF DOUBLE TAXATION

- A double taxation treaty may eliminate double taxation of income from Slovakia for taxpayers seated abroad.

## BRANCH OF A FOREIGN ENTITY

- A Slovak 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 (e.g. a Slovak company) would achieve from carrying out similar activities under similar conditions.
- A branch has the same tax registration, filing, payment, and tax advance payment obligations and has to follow Slovak accounting rules 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. The place is considered to be permanent if the foreign company carries out one off activities in Slovakia through this place 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.

- A PE has the same tax registration, filing, payment, and tax advance payment obligations as a Slovak company.

## TAX SECUREMENT

- Individuals or entities may have to deduct taxes from certain payments made to foreign taxpayers which are subject to Slovak tax unless they are tax residents in the European Union.
- In such cases, when paying, transferring, or crediting an amount to a non-EU entity, the taxpayer must withhold a 19% tax securement unless relief is available under relevant Double Tax Treaty.
- The tax securement is considered a tax advance.

## 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 or eliminate the rate.

Fees for services provided

in the Slovak Republic (including management fees) 19%

Royalties\* 19%

Interest on loans and deposits\* 19%

\* Interest and royalties paid to EU resident closely 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.
- Some taxpayers (such as tax residents in the European Union) can treat the tax withheld on certain types of income as a tax advance and deduct it in its Slovak tax return.

## 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.

# Corporate Tax Compliance

## TAX PERIOD

- The corporate tax period can be:
  - a calendar year; or
  - a different accounting and fiscal year (12 consecutive calendar months).
- Special rules apply to business combinations, liquidation, bankruptcy, and, in some cases, to a change of legal form of a taxpayer.
- To change the tax period from a calendar year to a different 12-month accounting and fiscal year, the taxpayer must notify the tax office.

## FILING

- Corporate tax returns must be filed by the general filing deadline of three months following the end of the taxable period.
- A taxpayer can extend the filing deadline for three more months (or six more months if at least part of the taxpayer's income is from abroad) upon filing written notification to the tax office of this by the filing deadline.

## PAYMENT

- The balance of tax 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 exceeded EUR 1,659.70.
- Advances are payable:
  - quarterly (one-fourth of the last known tax liability), if the last known tax liability was between EUR 1,659.70 and EUR 16,596.96; or
  - monthly (one-twelfth of the last known tax liability), if the last known tax liability exceeded EUR 16,596.96.

## 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 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 European Central Bank's base interest rate (but not less than 10%) 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 EUR 66,380.
- If the taxpayer does not submit a tax return on time, there will be a penalty of up to EUR 16,596.95.
- In addition to penalties, the tax administrator can impose late payment interest of four times the European Central Bank's base interest rate (but not less than 15%) multiplied by the amount of overdue tax, for each day of late payment.

## STATE AID AND INVESTMENT INCENTIVES IN THE SLOVAK REPUBLIC

### Possibilities of being granted state aid from public sources in the Slovak Republic

1. Investment incentives available under current Slovak law are potentially available for projects in the following areas:

- industry;
- technology centres;
- shared services centres; and
- tourism.

The following investment incentives, all of which are considered state aid, are available as follows:

- cash grants for purchasing tangible and intangible fixed assets;
- corporate tax credits;
- financial support for creating jobs; and
- the transfer or swap of immovable assets at a discount.

The main conditions to be met in order to apply for incentives are:

- 1) establishment, extension, or modernization of an operation, or purchase of an establishment that would otherwise have been shut down;
  - 2) minimum investment costs, the level of which depends on the type of investment and the unemployment rate in the region concerned;
  - 3) 25% of the total value of the investment must be made from the investor's own financial sources (including bank loans); and
  - 4) work must start on the project only after the Slovak Ministry of Economy's written confirmation that the project preliminarily meets the conditions for being granted incentives.
- The maximum amount of available state aid for a particular project depends on the region in which the project will be located, with the highest amounts available in the central and eastern parts of Slovakia. No investment incentives are available for projects in the Bratislava region.



	Middle-sized companies	Small companies
■ 0% of eligible costs of the project	+ 0%	+ 0%
■ 40% of eligible costs of the project	+ 10%	+ 20%
■ 50% of eligible costs of the project	+ 10%	+ 20%

## 2. Investment incentives for projects for research and development

Types of investment incentives available under the current Slovak law on incentives for research and development are as follows:

- subsidies for research and development projects from the state budget;
- income tax relief – at the amount incurred for research and development.

Types of projects which can be granted investment incentives:

- fundamental research projects;
- experimental development projects;
- applied research projects;
- feasibility studies;
- protection of intellectual and industrial protection; and
- staffing of research and development functions.

## EU funds

In addition to state aid, there is also support available from the European Union for the period from 2007 to 2013. The main areas of support are as follows:

- Knowledge economy
- Infrastructure and regional accessibility
- Human resources

Strategies, priorities, and targets of support from EU funds are implemented for 11 operational programmes, within which it is possible to apply for financial non-returnable subsidy by way of the calls published by the public authorities :

1. Regional operational programme
2. Environment
3. Transportation
4. Making information more available to society
5. Research and development
6. Competitiveness and economic growth
7. Education
8. Employment and social inclusion
9. Health care
10. Technical assistance
11. Bratislava region

### **Measures aimed at softening the impact of the financial crisis on the labour market:**

The Slovak government approved the following temporary measures for employers in order to soften the impact of the financial crisis:

- support for maintaining employment;
- a contribution for creating new jobs;
- a contribution to support education and the preparation of employees for the labour market;
- a contribution for employing disadvantaged applicants; and
- a contribution for keeping employees with low salaries.

# OTHER TAXES

## Value-added Tax

### 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 turnover of EUR 49,790 for the previous consecutive 12 calendar months. A voluntary registration is also possible.
- VAT registration is obligatory for foreign person (taxable persons without seat or VAT establishment in Slovakia) before it carries out any activity subject to VAT in Slovakia.
- A foreign person that makes long-distance sales in Slovakia to any person not registered for Slovak VAT, and where the total value of the goods supplied reaches EUR 35,000 in a calendar year is obliged to register for Slovak VAT.
- A taxable person not registered as a VAT payer may have to obtain a VAT number and pay output VAT or report the supply of services in certain cases.

### RETROACTIVE VAT REGISTRATION

- Retroactive VAT registration is possible from 1 April 2009, but only for a taxable entity that should have registered for VAT after 1 April 2009.

### VAT GROUP

- As of 1 April 2009, it is possible to create a VAT group in Slovakia that enables that persons connected financially, economically and organizationally that have their seat or permanent establishment in Slovakia to register for Slovak VAT as a single VAT payer. As a result, the 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 country (other than Slovakia) transfers its own goods from another EU country 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 the call-off stock regime, it does not have to register for Slovak VAT. In this case, the customer will have to pay the VAT on the acquisition of goods in Slovakia.

## VAT RATES

- The standard VAT rate of 19% applies to most goods and services, whilst a reduced rate of 10% applies to pharmaceutical products, some medical aids, depending on the commodity code (as listed in Annex 7 to the Slovak VAT Act), books, and certain similar products.

## EXEMPT SUPPLIES

- In general, the exemption without credit applies to postal services, financial and insurance services, education services, radio and TV broadcasting services, health and social services, the transfer and lease of real estate (with some exceptions), and lottery services.
- The exemption with credit includes for example the following transactions:
  - the intra-Community supply of goods;
  - financial and insurance services, if provided outside the EU;
  - triangulation transactions;
  - transport of passengers in certain cases; and
  - the export of goods outside the EU.
- The sale of construction land is generally subject to VAT. The sale of buildings, including the construction land on which the building stands, after five years from their official approval for use (collaudation), is VAT exempt. However, a VAT payer can decide to charge VAT on the sale. The rent of premises (among some exceptions like parking space) is exempt from VAT. The VAT payer can decide to charge VAT on the lease of a building to another taxable person.

## TRANSFER PRICING

- Transfer pricing for VAT purposes was introduced from 1 January 2010. Transfer prices should be applied to the supply of goods and services by a Slovak VAT payer to its related parties (e.g. group companies, employees), where the consideration is lower than the open market price. Transfer pricing applies only in cases where the recipient of the supply is not a VAT payer, or is a VAT payer that does not have a full right to claim related input VAT. In such cases, the tax base is the market value of the goods or services.

## TAX REPRESENTATIVE FOR THE IMPORT OF GOODS

- The import of goods to Slovakia dispatched or transported from a non-EU country, where this dispatch or transport ends in another EU country than Slovakia, can be VAT exempt, provided certain conditions are met.
- If the importer is a foreign taxable person that is not a Slovak VAT payer, a tax representative can represent the foreign taxable person in Slovakia. In such a case the foreign taxable person does not have to register for VAT in Slovakia, instead the tax representative will apply the exemption from VAT on import of goods.

## VAT RECOVERY

- A VAT payer can deduct input VAT related to taxable supplies received that will use to provide its taxable supplies with recovery as a VAT payer.
- A VAT payer cannot deduct input VAT related to its supplies exempt from VAT without credit.
- Partial recovery using a coefficient calculated according to the law is allowed in case where the supplies are used for both taxable and exempt supplies with credit.
- It is necessary to adjust input VAT related to the purchase of certain tangible and intangible assets if their purpose of the use changes from one group to another within a period of five years from the date of acquisition (ten years in the case of real estate).
- VAT incurred on entertainment costs, refreshments and representational costs is always irrecoverable.

## VAT COMPLIANCE

- VAT is administered by the tax authorities, except for import VAT which the customs office administers.
- A valid VAT document (invoice) must be issued for every taxable supply rendered to a taxable person within 15 days from the day that the tax liability arose (the tax point).
- Invoices issued in electronic form, must be signed by an electronic signature or it can be secured by an EDI system.
- Monthly VAT returns must be filed if annual turnover exceeds EUR 331,939.19. VAT returns must be filed for calendar quarter if turnover for the previous calendar year is less than EUR 331,939.19, although a VAT payer with turnover below EUR 331,939.19 can opt to file monthly returns.
- VAT returns must be filed within 25 days from the end of the taxable period, and any VAT liability must be paid by the filing deadline.

## EC SALES LIST

- VAT payers must submit EC sales lists if they make intra-community supplies of goods or provide services with their place of supply in another EU member state to a taxable entity and the customer is obliged to pay the VAT.
- A VAT payer can submit an EC sales list for a calendar quarter if the value of goods does not exceed EUR 100,000 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 need to be submitted within 20 days after the end of the period to which they relate, and they have to be filed electronically.



## VAT REFUNDS

### **VAT refund for Slovak VAT payers**

- A VAT payer is not automatically entitled to a cash VAT refund if it reports a VAT refund. If the VAT refund cannot be fully offset in the following VAT period, then the tax authorities should refund the excess input VAT within 30 days after the VAT return for that following VAT period is filed.
- However, if certain conditions are met the tax office should refund the VAT within 30 days from the day that the VAT return is filed.

### **VAT refund for foreign VAT payers from another EU country**

- A foreign VAT payer from other EU country can claim Slovak VAT through the VAT refund scheme for foreign person not registered for VAT in Slovakia.
- The VAT refund can be claimed by submitting a request electronically through the electronic portal in the claimant's country by 30 September of the calendar year following that for which the refund is claimed.
- The VAT refund claim should be submitted for a period no longer than one calendar year, and the total amount of VAT claimed must be at least EUR 50.
- Under certain conditions, it is possible to claim a refund for a period shorter than one calendar year.

### **VAT refund for foreign entities from non-EU**

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

## Excise duties

### PRODUCTS 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,
  - beer,
  - wine,
  - spirits, and
  - tobacco products.
- The excise duty liability for electricity, coal and natural gas arises at the moment that the product is delivered for final consumption.
- The rate of excise tax depends on the specific type of product.
- In certain limited cases, the products listed above are exempt from excise duty.

### AUTHORIZED ENTITIES

- An excise duty suspension arrangement enables the tax liability to be postponed until the day the product is released into the tax free circulation regime.
- The production, storage, receipt, and dispatch of products under the duty suspension arrangement is carried out by an authorized warehouse keeper.
- To obtain excisable products from another EU member state under the duty suspension regime, it is necessary to register as a licensed receiver.
- For transactions under the duty suspension regime (storage and transport), a tax guarantee has to be lodged with the Customs Administration.
- A tax representative 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 representative must be registered with the Slovak Customs Administration and cannot be the final customer.

- The company must be authorized to use excisable products exempt from excise duty.

## REGISTRATION

- Entities that want 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 authorization will be granted.
- The registration and licence (if necessary) are issued by the Customs Office on the basis of a written application.
- The company using excisable products exempt from excise duty must register with the Slovak Customs Administration, and apply for a licence and a voucher. The company then provides the voucher to its supplier, who can then provide the excisable products free of excise duty.
- Registered consignee is based on authorisation from the customs office entitled to dispatch the goods under suspension after it is released into tax free circulation. It is not authorized neither to receive nor store such goods. The registration is possible from 1 April 2010.

## EXCISE DUTY COMPLIANCE

- All excise duties are administrated by the Customs Offices
- The taxable period is 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 be paid within this period.

## EXCISE DUTY REFUNDS

- In certain circumstances, the tax warehouse keeper, or another authorized entity, can obtain a refund of Slovak excise duty on a product that has been taxed. In general, this applies if excisable products released for tax free circulation in Slovakia are supplied to be used in another EU member state or are used for purposes exempt from excise duty.

# Customs

## GENERAL PRINCIPLES

- Goods imported from non-EU countries are subject to import customs clearance.
- Goods exported from the EU customs territory have to be declared for export customs clearance.
- The person responsible for paying the customs debt is the declarant.
- The declarant is the person making the customs declaration in his own name, or the person in whose name the customs declaration is made.
- The custom declaration should be made in the prescribed form and manner (in writing or by another action).
- Import or export duties are customs duties and other charges payable on the import or export of goods (import VAT, excise duties and charges under the common agricultural policy).
- The customs authorities require declarants to provide a deposit to cover the customs debt in the event that a customs debt arises. Such a deposit may be in cash, or may be provided by a guarantor.
- For the purpose of the communication with the customs offices, each person has to be identified by EORI number (Economic Operator Registration and Identification Number), which is registered by the customs authorities based on the request. EORI registration is mandatory for the customs clearance.

## RIGHT OF REPRESENTATION

- Any person may appoint a representative in his dealings with the customs authorities to perform the acts and formalities laid down by the customs rules. Such representation may be direct or indirect.

## CUSTOMS PROCEDURES

- The declarant may choose the customs procedure under which the goods should be placed based on the purpose of the goods. Customs-approved treatment or use of goods means:
  - the placing of the goods under a customs procedure;
  - their entry into a free zone or free warehouse;
  - their re-export from the customs territory of the EU;

- their destruction; or
- their abandonment to the exchequer.
- The goods may be released into free circulation or for export. The movement of non-EU goods should be covered by the transit customs procedure. Alternatively, the following regimes may be applied:
  - customs warehousing,
  - inward processing,
  - onward processing,
  - processing under customs control, and
  - temporary admission.

## CUSTOMS DEBT

- A customs debt is incurred at the time of acceptance of the customs declaration through:
  - the release for free circulation of goods liable to import duties, or
  - the placing of such goods under the temporary import procedure with partial relief from import duties.
- The debtor is a declarant, and, in the event of indirect representation, a representative as well. The customs duty must normally be paid by the debtor within ten days of the announcement of the customs debt to the debtor.

## SIMPLIFICATIONS

- In order to simplify formalities and procedures, the customs authorities may grant permission to use the following simplified procedures:
  - an uncompleted customs declaration,
  - a commercial or administrative document instead of the customs declaration,
  - a local customs clearance,
  - an authorized consignee and sender.
- Being an Authorized Economic Operator means that one is considered a reliable partner of the customs authorities, and it allows customs procedures in various areas to be simplified.

## Environmental fees

- Importers and producers are obliged to pay environmental fees to the Recycling Fund of the Slovak Republic for selected commodities, as follows:
  - Batteries and accumulators
  - Mineral Oils
  - Tyres
  - Multilevel Combined Materials
  - Packages made of metal
  - Electronic machines - various rates, based on the type of product
  - Glass
  - Paper and paperboard
  - Cars
  - Plastic products
- Importers and producers of the above items and their packaging have to report to the Ministry of Environment of the Slovak Republic the total amount of goods that will become an environmental burden in Slovakia in the form of waste.

The reporting obligations relate to:

- production of the above items;
  - import of the above items; and
  - packaging of products.
- Packaging used for products placed on the Slovak market have to be recycled, based on the percentage limits set out in the Slovak packaging law.
  - Environmental fees may be reduced if certain conditions are met.

## Vehicle Tax

- Under the Act on Local Taxes, 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.
- Taxable vehicles are those used for business purposes or for other entrepreneurial activities subject to income tax in the Slovak Republic.
- The taxpayer is an individual, legal entity or registered branch, which:
  - is registered as an owner of the vehicle;
  - uses the vehicle for business purposes, and the person registered as owner does not do so;
  - uses the vehicle for business purposes, and the person registered as owner has its permanent residence or its seat abroad;
  - is an employer who pays travel allowances to employees for use of their own vehicles for the employer's business purposes.
- Tax rates are set:
  - for passenger cars, based on engine capacity in cm<sup>3</sup>;
  - for other vehicles, such as delivery vans, lorries, buses, trucks and trailers, based 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 for the previous year by 31 January. If a taxpayer expects that his total vehicle tax liability will, in the current calendar year, exceed:
  - EUR 660, he is obliged to divide his tax liability into four equal quarterly advance payments; or
  - EUR 8,292, he is obliged to divide his tax liability into 12 equal monthly advance payments.

## 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 by a self-governing region, or the lessee, if the lease is to last for at least 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 is normally changed by the Municipality, and different rates generally apply to different types of land, within certain limits.

### Building Tax

- Building tax is generally payable by the registered owner of the building, or the registered custodian of a building owned by the state or by a 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 EUR 0.033 for each square metre of ground space occupied by the finished building.
- The tax rate is normally changed, within certain limits, by the Municipality issuing a General Binding Regulation.
- Rates generally depend on the type of building, and the number of floors it has, as well as the Municipality in which it is located.



## **Tax on apartments**

- Tax on apartments is generally payable by the registered owner of an apartment, or the registered custodian of a flat owned by the state or by a self-governing region.
- The basic annual tax rate is EUR 0.033 per square metre of floor area of the apartment.
- The tax rate is normally changed by the Municipality issuing a General Binding Regulation.

## **Common provisions for tax on land, buildings 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 Municipality may allow the tax to be paid in instalments, depending on the amount payable. The full tax liability is payable by 15 days after the tax assessment became valid.

The following PricewaterhouseCoopers publications provide further information about tax legislation:

#### Tax & Legal Alert

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

#### Tax & Legal Alert – Indirect Taxes

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

#### Taxes at a Glance

This booklet provides general tax and economic information about each CEE-CIS countries.

All of these publications can be found on our website [www.pwc.com/sk](http://www.pwc.com/sk).

Also, if you would like to be put on the mailing list for receiving these publications, please contact Jana Grošeková, Marketing, Tel.: +421 2 59350 131, [jana.grosekova@sk.pwc.com](mailto:jana.grosekova@sk.pwc.com).

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