Tax Card 2018

Effective as of April 1, 2018

Slovak Republic

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CORPORATE INCOME TAX

Standard	21%
Investment and mutual funds	21%
Pension funds	21%
Dividends	0% / 35%

Dividends received from non-contractual countries, i.e. countries not listed by the Slovak Ministry of Finance, are subject to tax at the rate of 35%.

Minimum tax / Tax License

Tax licenses are abolished starting from 1 January 2018. Companies will pay last tax license for year 2017, if their taxable period is a calendar year. If they apply a financial year as their taxable period, the last tax license will be paid for the tax period ending in 2018.

Tax depreciation periods

Depreciation is a tax deductible expense and is calculated for tax purposes at statutory rates. In general, a taxpayer uses the straight-line method. The accelerated method is allowed only in the case of categories of 2 and 3. Companies may have different depreciation rates for accounting and tax purposes. Intangible assets are depreciated in accordance with the accounting regulations. It is possible to interrupt the tax depreciation of tangible fixed assets. In certain cases specifically defined by legislation, the tax depreciation must be interrupted.

Straight-line method

Category		Useful life	Annual Depreciation
1	IT equipment, cars and some mechanical tools	4	1/4
2	Construction & agriculture machinery, TV receivers	6	1/6
3	Electric & cooling equipment, machinery used for metallurgy	8	1/8
4	Assembled buildings, ships, crafts, locomotives & reservoirs	12	1/12
5	Engineering buildings & buildings except for buildings stated in category 6	20	1/20
6	Hotels, buildings for cultural, public and administration purposes, residential buildings	40	1/40

Accelerated method

The accelerated method of depreciation is allowed only with categories 2 and 3 of the tangible assets.

Category	Coefficient for the first year	Coefficient for subsequent years	Coefficient for increased residual value
2	6	7	6
3	8	9	8

First year: acquisition price/coefficient for the first year, Subsequent years: 2 x residual value/coefficient for the subsequent years decreased by the number representing the period during which the asset has been depreciated.

In the case of assets put into use after 31 December 2011 the tax depreciation can be deducted proportionally to the number of months in which the asset was in use.

Depreciation period for buildings where spa treatment is provided will be shortened to one half of the regular depreciation period set for 6th depreciation category using the linear depreciation method.

Tax loss carry forward

• Tax losses can be utilized equally for a period of 4 subsequent tax periods. The tax losses declared for tax periods ended in 2010 – 2013 or its unutilized portion shall be utilized equally for 4 subsequent tax periods from January 1, 2014.

• A company wound up without liquidation (e.g. on a merger or demerger), is allowed to transfer the right to carry forward its tax losses to its legal successor(s) to set off against subsequent taxable profits subject to certain anti-avoidance provisions.

• Different rules may apply to pre-2010 losses, or to losses of companies benefiting from various tax incentive schemes.

Withholding taxes on income to non-residents (for example):

Dividends A	0% / 7% / 35%
Interest B	0% / 19% / 35%
Royalties C	0% / 19% / 35%

A) A distribution of profit after tax in the form of dividends is in general not subject to withholding tax unless the distributed profit was derived prior to 1 January 2004. Dividends paid after April 1, 2004 from a Slovak subsidiary to its EU Parent Company are in any event not subject to withholding tax, although these dividends may relate to the distribution of profits earned before January 1, 2004. The receiving (EU parent) company needs to possess a direct shareholding of prescribed % at the time of distribution.
Dividends paid to Slovak resident individuals and to individuals tax resident in contractual countries from profits derived from 1 January 2017 by Slovak companies are subject to withholding tax at the rate of 7%, if the applicable double taxation avoidance treaty does not determine otherwise. A withholding tax rate of 35% applies to dividends paid by Slovak companies to all residents from non-contractual countries, including individuals and companies.
B) Interest paid by a Slovak resident company or Slovak permanent establishment to any associated company resident in another EU member state is not subject to withholding tax in the Slovak Republic provided that certain conditions are met (e.g. an uninterrupted direct shareholding of at least 25% for at least 24 months).
C) Royalties paid by a Slovak resident company or Slovak permanent establishment to any associated company resident in another EU member state is not subject to withholding tax in the Slovak Republic provided that certain conditions are met (e.g. an uninterrupted direct shareholding of at least 25% for at least 24 months).

A withholding tax of 35% applies if a payment is made to non-treaty country (any country not having concluded DTT with Slovakia or exchange of information agreement with Slovakia). The list of treaty countries is published by the Slovak Ministry of Finance.

Withholding tax rates may be reduced by double taxation treaties (see the list overleaf). Withholding tax normally becomes payable when the income is paid or credited to the recipient.

Exemption of income from sale of shares and a business share

Similarly to Participation Exemption regimes known from other EU countries the amendment of the Income Tax Act introduces an exemption from the corporate income tax for income from sale of shares and business shares provided that the following conditions are simultaneously met:

• minimum holding of 10% of the registered capital;
• holding period for at least 24 consecutive calendar months;
• substance test: the company selling shares must perform

economic activities in the territory of Slovakia, perform material functions, bear risks related to the investment and have the respective personal and material equipment.

Only legal entities (not individuals) would be entitled to the exemption and it would be applicable also to shareholdings acquired up to 31 December 2017; however the holding period test on existing shareholdings would commence on 1 January 2018.

Exit tax

If a taxpayer decides to transfer assets or business activities abroad, an obligation to tax the economic value of all capital gains generated in Slovakia will arise (so called Exit tax) despite the fact that the profit has not been realised at the time of exit. The exit tax will be reported within a special/partial tax base and taxed at a rate of 21%. Assets transferred outside the territory of Slovakia will be subject to tax even if no sale/change of the legal ownership arises, as long as the Slovak Republic loses its right to tax this income due to transfer of the property. It will be possible to pay the exit tax also in instalments within the period of 5 years provided that the assets are transferred to a country which enables effective collection of receivables, e.g. when the assets, tax residence or business activity are transferred, for example, to an EU Member State. Otherwise the exit tax is payable within the deadline for filing of the tax return.

Patent boxes

Patent boxes are introduced as a new provision with the intent to support industrial R&D. Income for the use or the right to use of granted and registered patents, utility models and software created by the taxpayer (not purchased) will be partially exempted from a tax. The exemption will also be applicable to income generated by sale of products manufactured using a registered patent or a technical design protected by a utility model.

Controlled foreign companies (CFC) rules

The Amendment of the Income Tax Act introduces rules for controlled foreign companies (CFC) which should be effective as of 1 January 2019.

A controlled foreign company is a company that is registered and conducts business in a different jurisdiction than the place of residency of the controlling owner.

A non-resident company would be treated as a CFC if it is controlled by a Slovak resident or jointly with related parties, by direct or indirect share participation in the share capital or voting rights of at least 50% or at least 50% profit share, and the corporate income tax of the CFC paid abroad is lower than 50% of the Slovak tax. In such instances, the corporate income tax base of the CFC would be included in the corporate income tax base of its Slovak controlling company and taxed in accordance with the Slovak tax legislation. A part of the foreign tax paid with respect to the CFC's income could be credited against the final tax liability.

VAT

The standard VAT rate equals to 20%. A reduced VAT rate of 10% applies to medicine, certain other medical and pharmaceutical products, certain books and brochures and certain food products. VAT grouping for group companies is allowed with effect from January 1, 2010 if certain conditions are met.

As of January 1, 2014 a VAT payer is obliged to file along with the VAT return a detailed VAT ledger containing detailed information on received and issued VAT related documentation (e.g. invoices, contracts, cash register receipts).

PERSONAL INCOME TAX

Effective for 2018	Max. monthly comp. base (in EUR)	Employee (in %)	Employer (in %)
Retirement insurance	6,384	4.0	14.0
Disability insurance	6,384	3.0	3.0
Sick leave insurance	6,384	1.4	1.4
Unemployment insurance	6,384	1.0	1.0
Contribution into the Reserve fund of the SIC	6,384	0.0	4.75
Guaranty insurance	6,384	0.0	0.25
Injury insurance	no limit	0.0	0.8
Health care insurance	no limit	4.0	10.0
Total in %		13.4	35.2

Tax base up to and including EUR 35,268.06	19%
Tax base in excess of EUR 35,268.06	25%
Special additional tax for certain public servants	5%

Taxable income includes employment income including benefits in kind and directors' remuneration, business and rental income, income from capital and other income. Certain exemptions may apply.

Tax allowances

• Personal tax allowance is a max. EUR 3,830.02 a year (from tax base amounting to EUR 19,948, the allowance is decreased continuously, with no tax allowance applicable if tax base exceeds EUR 35,268.06).

• Spouse tax allowance is a max. EUR 3,830.02 a year (from tax base amounting to EUR 35,268.06, the spousal allowance is decreased continuously, with no tax allowance if tax base exceeds EUR 50,588.12 or if spouse's income exceeds EUR 3,830.02), if certain conditions are met.

• Contributions to the 3rd pillar (under certain conditions), but not more than EUR 180 per year.

A 60% lump sum deduction from entrepreneurial income (with certain exceptions if actual costs are not claimed) up to the threshold of EUR 20,000 annually. Tax allowances are deducted from the tax base.

Tax bonus

A tax bonus of EUR 21.56 per a dependent child per month can be deducted from the tax liability under certain conditions.

SOCIAL SECURITY

The health-care insurance contributions paid monthly are regarded only as prepayments and are settled on annual basis. No maximum assessment base applies for health-care insurance as of 2018. EU Social Security Regulations apply in Slovakia.

LOCAL TAXES ACT

The Local Taxes Act enables local municipalities to administer and collect a number of specified taxes, for example property tax. The local municipalities must impose an obligatory levy for municipal waste and minor construction waste. The higher territorial units are entitled to levy the motor vehicle tax.

INVESTMENT AID AND OTHER GRANTS

Slovakia has historically had extensive investment aid legislation, which has attracted many investors to the country and has created many new jobs. Effective as of 1 April 2018, the investment aid is available for three categories of investments including industrial production, technological centers and business service centers.

Under the Slovak Regional Investment Aid Act investors can apply for:

- Subsidies for tangible or intangible fixed assets;
- Income tax relief;
- Contribution for new jobs; and
- Option to acquire real property via transfer of ownership or lease at a price lower than market value.

There are several detailed provisions and exceptions, which need to be taken into account when applying for investment aid. Conditions on the provision of the investment aid vary depending on the category and form of the investment, location and other parameters of the project.

The Regional Investment Aid Act responds to modern trends in global development such as automation, robotics and building supply chains. The aim of the Slovak investment aid legislation is to stimulate new investments in the regions with high unemployment rates and to support investments in R&D and strategic service centres supporting the employment of qualified experts.

The regional investment aids are fully funded by the Slovak state budget. These investment aids fall in the category of regional aids, they should therefore be fully compatible with the European Union State Aid regulations.

It should be stressed that:

- The investment aid amount is determined on the basis of a percentage of the eligible investment expenditure or percentage of the gross salary costs;
- The eligible investment expenditure includes investments into fixed tangible assets, such as land and buildings, intangible assets, such as know-how and licenses and gross salary costs;
- The investment project cannot start before the date of submission of the investment intention to the Slovak Ministry of Economy. Any work initiated before such a date will be excluded from the scope of eligible expenditure for investment aid;
- There is no automatic entitlement to investment aid in Slovakia and all applications for investment aid must be approved by the Slovak Government;
- All investment aid is subject to limits set by the EU state aid law and in specific cases must be notified to and approved by the European Commission;
- The maximum aid intensity for Slovakia varies between 25% and 35% of the eligible costs. Aid intensity depends on the unemployment rate in the respective district and form of the aid. Slovak authorities may reduce the aid amount as there is a tendency to award aid on basis of the new jobs to be created by the investments;
- Tax relief is the preferred form of regional aid;
- The Bratislava region is excluded from investment aid.

Furthermore, investors may apply for subsidies under the EU Structural and Investment Fund (ESIF) programs. The current program is set up for the period 2014 – 2020. The total available amount of ESIF funding available for Slovakia is approximately EUR 15 billion.

Note that most of the funds will be destined for local and regional areas to improve infrastructure, health care etc. Furthermore, many schemes under the EU structural fund programs will be aimed at the small and medium sized businesses. However some programs may be eligible for large companies. The requirements are published on websites of responsible Ministries.

Further significant EU funds may be made available for research and innovation under the Horizon 2020 program, which is meant to stimulate the European research in order to further develop the European knowledge of the economy and society.

The Regional Investment Aid Act represents new Slovak legislation on investment aid and was adopted with effect as of 1 April 2018.

The following treaties are in force:

Armenia, Australia, Austria, Belarus, Belgium, Bosnia and Herzegovina, Brazil, Bulgaria, Canada, China, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Japan, Kazakhstan, Korea (Rep.), Kuwait, Latvia, Libya, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Mexico, Moldova, Mongolia, Montenegro, Netherlands, Nigeria, Norway, Poland, Portugal, Romania, Russia, Serbia, Singapore, Slovenia, South Africa, Spain, Sri Lanka, Syria, Sweden, Switzerland, Taiwan, Tunisia, Turkey, Turkmenistan, Ukraine, United Kingdom, United Arab Emirates, United States, Uzbekistan, Vietnam (Barbados, Egypt, Iran – still to be signed or ratified or published).

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