GMS Flash Alert

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Slovakia - Fresh Out of the Gate, New Government Shakes Up Tax Rules

The Slovak government, very quickly after its official appointment as of 25 October 2023, introduced a package of measures to fund the public finances.[1] The “amendment act,” as it is known, is a new act which amends the provisions of several other acts, including the Slovak Income Tax Act. It features tax increases and the cancellation of fiscal measures that had been agreed by the prior government.

The amendment act was approved by the Slovak Parliament on 19 December 2023, in an accelerated legislative procedure and should be in force from the beginning of 2024, if the president signs it.

WHY THIS MATTERS

The changes were approved in a very short time after their introduction by the new government. It appears as though individuals and employers affected by the measures may not have sufficient time to prepare and make any adjustments to policies and procedures before these changes become effective on 1 January 2024.

The increase of the health-care insurance rate on the side of employers will bring higher costs for employers, economic employers, or foreign payroll taxpayers in Slovakia, if their employee falls under the Slovak social security system.

The cancellation of several tax exemptions that relate to investments and related income, and the increased rate of tax on dividends will also have the effect of increasing the tax liability of taxpayers with investments.

Where appropriate, adjustments to policies, gross-up packages, and withholding taxes may need to be considered.

Each individual’s tax status should be determined in light of his or her particular situation.

Amendment Act's Key Tax Measures

If the president signs the amendment act, the following changes will affect individual taxpayers and employers from 1 January 2024.

Increased tax rate for income from dividends

The *personal income tax rate* on profit shares (dividends) is raised from 7 percent to 10 percent for profits generated in tax periods starting on or after 1 January 2024. The 7-percent tax rate will continue to apply to dividends from 2023 and earlier profits.

The *withholding tax rate* on dividend payments is also increased from 7 percent to 10 percent.

Cancellation of several tax exemptions

The amendment act removes:

- the tax exemption in respect of income from the sale of securities that are not traded on a regulated market if sold three years after their acquisition,
- the tax exemptions in respect of income from the sale of a share in a limited liability company, and
- the tax exemptions for the use of virtual currency.

KPMG INSIGHTS

These exemptions were introduced in summer 2023 by the previous Slovak cabinet and would have entered into force from 1 January 2024. Now they have been cancelled (before becoming effective). (For prior coverage, see *GMS Flash Alert* 2023-153, 26 July 2023.)

Despite the unclear wording of the transitional provisions here, the government plans to keep the older exemption unchanged for securities traded on a regulated market if sold after one year of possession.

Increase in the income threshold for self-employed persons

The maximum amount of taxable income of a self-employed person for the application of the beneficial 15-percent tax rate is increased from EUR 49,790 to EUR 60,000 as of 2024.

Increase of health-care insurance contributions

As of 2024, the rate for employer's health-care insurance is increased from 10 percent to 11 percent (or from 5 percent to 5.5 percent if employing persons with disabilities).

The health-care insurance rate for self-employed persons, self-payers, and state-insured persons is also increased from 14 percent to 15 percent (or from 7 percent to 7.5 percent for persons with disabilities).

KPMG INSIGHTS

Compared to neighbouring countries, the Slovak health-care insurance contributions will become even higher. Although the net wage of an employee will not change, the employment costs for the companies will increase significantly due to the lack of maximum assessment thresholds for health-care insurance.

Other changes

- The VAT rate on alcoholic beverages in restaurants will be raised from 10 percent to 20 percent,
- 1 September will no longer be a public holiday, and
- The excise duty on tobacco and tobacco products will be increased.

KPMG INSIGHTS

The new rules are intended to raise additional revenues for the state treasury of the Slovak Republic. However, there are still several questions that need clarification by the government.

Employers and employees concerned about the effect of the above-noted changes and how to budget for and otherwise plan the employee's assignment, should contact their qualified tax professional or a member of the Global Mobility Services team with KPMG in Slovakia (see the Contacts section).

FOOTNOTE:

1 See (in Slovak) *Vládny návrh zákona, ktorým sa menia a dopĺňajú niektoré zákony v súvislosti so zlepšením stavu verejných financií,* by clicking here.

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Contact us

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