Slovakia – New Legislation Aims to Raise Revenue Through Taxation Changes

On 3 October 2024, the Slovak Parliament approved a so-called consolidation package seeking to reduce the public finance deficit.[1] According to the government's projections,[2] the approved measures are estimated to save approximately €2.7 billion.

There are several significant changes adopted, including a lower and limited child bonus and a higher base for social security contributions, which could have a negative impact on the net income of employees as well as self-employed individuals and increase costs for companies.

The consolidation package was passed, but not without some vocal disagreements from the government's opposition as well as the public, in general, due to a shortened legislative procedure and the significant impacts anticipated for businesses and individuals.

If the president of the Slovak Republic signs the legislation, most of the changes introduced will come into force at the beginning of 2025, giving a very short period to adjust to the new rules.

WHY THIS MATTERS

The net income of employees will be mostly affected by a lower or even zero child allowance, and by a higher cap set for social security contributions. Slovakia-based employers with international assignees employed in Slovakia who are covered under Slovak social security mayl see their burdens and costs increase.

The consolidation package will also bring substantial modifications to VAT rates and, consequently, this could lead to higher consumer prices.

Moreover, the government has introduced a new tax on financial transactions that will apply to all legal entities as well as individual entrepreneurs, potentially increasing their administrative and fiscal burdens.

Key Changes

Lower Child Tax Bonus

The child tax bonus for dependent children (students) over the age of 18 will be cancelled. Furthermore, there will be a reduction in the maximum child bonus for one dependent child (from €140 to €100 per month). Moreover, as an individual's income increases, the child tax bonus will reduce, reaching zero for individuals whose monthly income exceeds €3,632.

Higher Maximum Assessment Base for Social Security Contributions

The maximum monthly assessment base will rise from the current level of seven times the average monthly wage to eleven times the average monthly wage in the Slovak Republic. This is applicable for both employees' as well as employers' contributions, leading to additional contributions to be paid by higher income individuals and by their employers.

Taxation of Self-Employed Individuals

The threshold for the application of a reduced 15-percent personal income tax rate for self-employed individuals will rise to €100,000.

Taxation of Dividends

For corporate dividends earned during periods starting from 1 January 2025, the tax rate for dividends is decreased from the current rate of 10 percent to 7 percent, which was the rate that applied until 2023. Thus, the 10-percent tax rate is applicable only on dividends from a company's profits earned for 2024.

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This is not a complete list of all the changes, as the package comprises rather complex amendments to various acts. There are also several other changes which might have an impact on employers or individuals, e.g., changes in the taxation of the company car benefit where the employees drive electric cars, and a decrease in pension benefits for parents with employed or self-employed children, etc.

Other Measures Affecting Various Sectors and Businesses

- Rise in corporate income tax rate from 21 percent to 24 percent for corporate taxpayers whose taxable income exceeds €5 million.
- Increase in standard VAT rate from 20 percent to 23 percent. VAT on most food products will drop from 20 percent to 19 percent.
- Increase in motor-vehicle tax for personal vehicles owned by entrepreneurs; increase in tolls and highway stamps.
- New tax on financial transactions applied to bank transfers (0.4 percent with a maximum of €40 per transaction), cash withdrawals from banks or ATMs (0.8 percent), and the use of company payment cards (annual fee of €2) introduced for companies and self-employed individuals.

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Given that the adopted measures are broad and significant, it came as a surprise to many that the package was adopted in so little time, only 16 days after the first proposal was announced.

Taxpayers may have questions about the scope and the impact of the measures, to what degree they will feel the impact, and what steps should be taken in order to be in compliance. They should direct their questions to their usual tax adviser or a member of the GMS tax team with KPMG in Slovakia (see the Contacts section).

FOOTNOTES:

1 For the text of the law, Z 3. októbra 2024, "Ktorým sa menia a dopĺňajú niektoré zákony v súvislosti s ďalším zlepšovaním stavu verejných," click here.

2 See "Dôvodová správa."

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Contact us

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