



TAXES AND SOCIAL SECURITY

S A R I O

Slovak Investment
and Trade Development Agency

TAX SYSTEM IN THE SLOVAK REPUBLIC

Goals of the tax reform made in 2004 were to:

create a business and investment friendly environment for both individuals and companies
eliminate existing weaknesses and inefficiencies in the tax law
achieve the highest possible degree of tax fairness by taxing all types and all amounts of income equally
shift the tax burden from direct to indirect taxes

In order to achieve goals mentioned above and to eliminate forms of double taxation the following taxes were abolished:

dividend tax
gift tax
inheritance tax
real estate transfer tax

Slovakia's current tax system consists of following taxes:

1. Direct taxes
 - a. personal income tax
 - b. corporate income tax
 - c. local taxes: c 1. real estate tax, dog tax, tax on the use of public space, accommodation tax, vending machine tax, non- gainful (entertaining) slot-machine tax, tax on the entry into and parking of a motor vehicle in a historical part of the city, nuclear facility tax
 - c 2. taxes for municipal waste and small construction waste
 - c 3. motor vehicle tax
2. Indirect taxes
 - a. value added tax
 - b. excise taxes

DIRECT TAXES

PERSONAL INCOME TAX

Tax rate: 19% (FLAT)

TAX ALLOWANCES:

Personal tax allowances

If tax base of individual in the relevant tax period is

- a) equal or less than 100 times the living minimum in force as of January 1st of the relevant tax period (for 2008 it is 513 000 SKK, app. 15 186 EUR*) all individuals are entitled for personal allowance of 19,2 times the living minimum in force (for 2008 it means 98 496 SKK , app. 2 916 EUR)
- b) more than 100 times the living minimum in force (for 2008 it is 513 000 SKK, app. 15 186 EUR) tax allowance corresponds to the difference between 44,2 times the living minimum in force and $\frac{1}{4}$ of tax base; if the sum is less than 0 personal tax allowance is 0.

* Used average exchange rate for 2007 1 EUR = 33,781 SKK

Dependent spouse allowance

If tax base of individual in the relevant tax period is

- a) equal or less than 176,8 times the living minimum in force as of January 1st of the relevant tax period (for 2008 it is 906 984 SKK, app. 26 849 EUR) and his/her spouse
 1. has no income, tax allowance corresponds to 19,2 times the living minimum in force (for 2008 it means 98 496 SKK , app. 2 916 EUR)
 2. has income lower than 19,2 times the living minimum, tax allowance corresponds to the difference between 19,2 times the living minimum and spouse's income
 3. has income higher than 19,2 times the living minimum, tax allowance is 0
- b) more than 176,8 times the living minimum in force as of January 1st of the relevant tax period (for 2008 it is 906 984 SKK, app. 26 849 EUR) and his/her spouse
 1. has no income, tax allowance corresponds to the difference between 63,4 times the living minimum in force and $\frac{1}{4}$ of tax base; if the sum is less than 0 personal tax allowance is 0.
 2. has income, tax allowance is 63,4 times the living minimum in force minus $\frac{1}{4}$ of tax base minus spouse's income; if the sum is less than 0 personal tax allowance is 0.

Additional allowances

Pension insurance allowance, specific purpose savings allowance and/or specific life insurance of 12 000 SKK together per year (app. 355 EUR)

Tax bonus

SKK 6 480 (app. 192 EUR) for each dependent child per year deductible from the final tax liability

Contributions to social security system:

Besides personal income tax, both individuals and companies make contributions to health and social security system. The obligatory contributions paid by employee and employer are listed in the table below:

Social Security Contributions

| | Contributions % of gross monthly salary | | Max computation base | Maximum contribution SKK (EUR) | |
|-------------------------|--|-------------|--|-----------------------------------|---------------------|
| | Employee | Employer | | Employee | Employer |
| Sickness | 1,4 | 1,4 | 1,5 times the average monthly salary | 394 (12) | 394 (12) |
| Retirement | 4 | 14 | 4 times the average monthly salary | 3 002 (89) | 10 507 (311) |
| Permanent disability | 3 | 3 | 4 times the average monthly salary | 2 252 (67) | 2 252 (67) |
| Unemployment | 1 | 1 | 4 times the average monthly salary | 751 (22) | 751 (22) |
| Health | 4 | 10 | 3 times the average monthly salary | 2 252 (67) | 5 629 (167) |
| Guaranteed fund | - | 0,25 | 1,5 times the average monthly salary | - | 71 (2) |
| Reserve fund | - | 4,75 | 4 times the average monthly salary | - | 3 565 (105) |
| Total | 13,4 | 34,4 | | 8 651 (257) | 23 169 (686) |

Furthermore, the employer must contribute to **employee's accident insurance**. The rate of accident insurance is **0.8%** of the relevant computation base.

Note:

Minimum computation base for health contribution for the year 2008 is minimum monthly wage as of October 1st 2007 8 100 SKK, app. 240 EUR.

Maximum computation base for health contribution for the year 2008 is 3 times the average monthly salary in 2006 ($3 \times 18\,761 = 56\,283$ SKK app. 1 666 EUR)

Minimum computation base for sickness, guaranteed fund, retirement, permanent disability, unemployment, and reserve fund is from 1st January 2008 minimum monthly wage as of October 1st 2007 8 100 SKK, app. 240 EUR.

Maximum computation base for sickness and guaranteed fund is from 1st January 2008 1,5 times the average monthly salary in 2006 ($1,5 \times 18\,761 = 28\,142$ SKK app. 833 EUR).

Maximum computation base for the other contributions (retirement, permanent disability, unemployment, and reserve fund) is from 1st January 2008 4 times the average monthly salary in 2006 ($4 \times 18\,761 = 75\,044$ SKK app. 2 222 EUR).

Exchange rate 1 EUR = 33,781 SKK

Sick leave benefits of employees:

To fight the abuse of sick leave benefits the Slovak Government introduced the obligation of the employer to pay the sick leave benefits (see below). On the other hand the maximum computation base

was reduced to ½ (1,5 times the average monthly salary) and the average sickness absence rate has been reduced from 5,117% in 2003 to 3,151% in 2007 (lowest in the region), hence saving about 2% of the working time and is still decreasing. The sickness absence rate in spring and summer 2007 was even below 3%, for example in April it was 2,449%, in May 2007 2,441% or in July 2007 2,774%.

| Period of Absence | Paid by Employer | Paid by Social Insurance Co. |
|-------------------|------------------|------------------------------|
| Day 1 to 3 | 25% of salary | - |
| Day 4 to 10 | 55% of salary | - |
| Day 11 onwards | - | 55% of salary |

(Source: Social Insurance Company "Sociálna poisťovňa")

Central Europe comparison of personal income and social security contributions

| Country | Czech Republic | Hungary | Poland | Slovakia |
|--|----------------|----------|---|--|
| PIT – Top rate | 32% | 40%* | 40% | 19% |
| Applied on income > | € 11 716 | € 26 500 | € 21 930 | flat tax rate |
| Soc Sec Paid by E ER(capped in PL and SR) | 35% | 33,50% | 19,71% - 22,41% | 35,20% |
| Maximum annual contribution | no limit | no limit | Partially limited: € 3 272 +3,45%- 6,15% uncapped on gross | Limit € 5 970 + 0,8% on gross income |
| Average salary | € 8 490 | € 7 080 | € 7 583 (p.a.) | € 6 170 |

Source: Deloitte & Touche Slovak Republic, 2007

Note: Figures are for illustration purposes only. The actual numbers may slightly differ due to rounding and exchange rate fluctuations.

* Including supplemental tax of 4% ("solidarity tax")

Total Employment Costs & Net Income for Expatriate with € 100 000 Yearly Income

| | Czech Republic | Hungary | Poland | Slovakia |
|---|------------------|------------------|----------------------------------|------------------|
| Soc. Sec paid by E'ER (cap in PL and SR) | 35% | 33,50% | 19,71% - 22,41% | 35,20% |
| Gross Income | € 100 000 | € 100 000 | € 100 000 | € 100 000 |
| Soc. Security paid by Employer | € 35 000 | € 33 500 | € 6 722 - € 9 422 | € 6 770 |
| Total Costs of employment | €135 000 | € 133 500 | € 106 722 - € 109 422 | € 106 770 |
| Gross Income | € 100 000 | € 100 000 | € 100 000 | € 100 000 |
| EE deduction: tax + social contribution | € 38 662 | € 46 608 | € 40 914 | € 20 828 |
| Net Income | € 61 338 | € 53 392 | € 59 086 | € 79 172 |

Source: Deloitte & Touche Slovak Republic, 2007

Note: Figures are for illustration purposes. The actual numbers may slightly differ due to rounding and exchange rate fluctuations.

CORPORATE INCOME TAX

Corporate income tax rate is currently 19% (FLAT).

There is **no tax on dividends**, regardless of whether received from a resident or a non-resident company.

Losses transfer:

The losses from previous years may be proportionally transferred in the 5 following years.

Tax Depreciation:

Depreciation is a tax deductible expense and is calculated for tax purposes at statutory rates. Both straight-line and accelerated methods of depreciation are allowed (Table 1 and Table 2). Companies may have different depreciation rates for accounting and tax purposes. Intangible assets must be depreciated over a maximum of five years in accordance with accounting 47 regulations. As of 1st January 2004 a taxpayer may depreciate assets which it leases under a financial lease. In such a case the leased asset may not be depreciated by the lessor.

Depreciation rates:

Straight-Line Method

| Type of Assets | Useful Life | Annual Depreciation |
|--|-------------|---------------------|
| Computers; Mechanical tools; Cars; Printers | 4 years | 1/4 |
| Some machinery and equipment used for construction; Machinery for agriculture; assets not allocated to a specific group | 6 years | 1/6 |
| Some machinery and equipment; special technical equipment; air condition equipment; metal constructions placed on the ground | 12 years | 1/12 |
| Pipe lines; buildings and electric and telecom networks | 20 years | 1/20 |

Accelerated Method

| Type of Assets | Coefficient | | |
|---|-------------|------------------|------------------------------|
| | First Year | Subsequent Years | For Increased Residual Value |
| Computers; Mechanical tools; Cars; Printers | 4 | 5 | 4 |
| Some machinery and equipment used for construction; Machinery for agriculture; assets not allocated to a specific group | 6 | 7 | 6 |

| | | | |
|--|----|----|----|
| Some machinery and equipment; special technical equipment; air condition equipment; metal constructions placed on the ground | 12 | 13 | 12 |
| Pipe lines; buildings and electric and telecom networks | 20 | 21 | 20 |

Depreciation costs are calculated as follows:

First year: acquisition price/coefficient for the first year

Subsequent years: $2 \times$ residual value/coefficient for the subsequent years decreased by number representing amount of period during which the asset has been depreciated

Source: Slovak Tax Authority

Note: Exact Classification of Tangible Assets into Depreciation Categories is listed in the first supplement of the Income Taxes Act - Act 595/2003

It is also important to compare the exclusion of certain expenses from tax deductible items. Non-Depreciable Tangible and Intangible Assets are listed in Section 23 of the Income Taxes Act – Act 595/2003.

Leasing:

Possible leasing objects (LO):

Production facilities, Warehouses

Office buildings

Shopping malls

Machinery & Cars

Finance Leasing (accord. to Slovak accounting standards):

The LO is activated and depreciated by the lessee

Accelerated depreciation - 60% of the standard depreciation period (Real Estate standard depreciation period 20 years, by Finance Leasing 12 years) improves cash flow

The lease installments are split into principal and interest, where interest is a tax deductible cost

Lessee has the possibility to acquire the LO at the end of the lease period (usually 12 years for Real Estate)

Can be used for both newly constructed objects and existing (used) objects

Operate Leasing (accord. to IAS/USA-GAAP):

Lessor bears the investment risk

Rent is the object is the main priority

No obligatory acquisition of the object at the end of the lease period

Off-balance-transactions possible (due to local regulations)

Sale & Lease Back

Release of hidden reserves and additional liquidity

On & Off balance models possible

Recap of reasons for a Leasing financing in Slovakia

100% financing

Tax reasons

Improvement of the balance sheet optics (Off balance)

Positive cash flow impacts

"Pay as you earn"

Administrative simplification of the investment

REAL ESTATE TAX

Real Estate Tax includes:

Tax on land

Tax on constructions

tax on apartments and non-residential premises in an apartment house

Tax on land

Tax on land rates:

The annual tax rate is 0,25%. The tax rate can be increased or decreased by the concerned municipality with effect from January 1st of the corresponding taxation period.

Tax on land base:

Tax base represents land area in square meters multiplied by the value of the land stated in the annex 1 and annex 2 of the Act on Local Taxes 582/2004. The value of the land stated in annex 1 and annex 2 can be in certain cases increased by concerned municipality.

Taxable assets:

arable land, hop yards, vineyards and fruit plantations,

permanent lawns,

gardens,

forest land with forest plantations for business purposes,

ponds with fish-breeding farms and other lakes used for business purposes,

built-up areas and courtyards,

building plots,

other areas with the exception of building plots

Tax on constructions

Tax on constructions rates:

The annual tax rate is 1 SKK (0,03 EUR) per square meter. The tax rate can be increased or decreased by the concerned municipality, with effect from January 1st of the corresponding taxation period.

Tax on constructions base:

The construction-tax base is the size of the built-up area in square meters. The built-up area is the ground plan of the structure at the greatest extent of the above-ground part of the structure.

Taxable assets:

residential buildings and other buildings forming structural attachments to the main building

buildings designated for agricultural production, greenhouses, structures used for the storage of own agricultural production and structures for water management, with the exception of structures for the storage of other than own agricultural production and administrative buildings

leisure-time structures, garden sheds and cottages for individual leisure

free-standing garages and autonomous garage compounds and structures designated or used for these purposes built ancillary to apartment houses

industrial buildings and structures serving power engineering, structures serving the construction industry with the exception of storage structures and administrative buildings

structures for other entrepreneurial and revenue-generating activities, storage and administration

other buildings

The tax on constructions shall be levied on constructions with one or more above-ground or below-ground levels or parts thereof, which are connected to the ground by a fixed base, for which a final inspection decision was issued or, if no such decision was issued, those buildings or parts thereof, which are actually in use. If a final inspection decision was issued with respect to a certain building, for tax purposes it is irrelevant, whether the building is being used, or not.

Example on Real Estate Tax for industrial buildings:

| Town, Town District | SKK / m ² | EUR / m ² | Change 2008/2007 (%) | Change 2007/2006 (%) | Change 2006/2005 (%) |
|---------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Banská Bystrica | 100 | 3 | 0 | 0 | 0 |
| Bratislava-Čuňovo | 81 | 2,4 | 0 | 0 | 0 |
| Bratislava-Devín | 81 | 2,4 | 0 | 0 | 0 |
| Bratislava-Devínska Nová Ves | 90 | 2,7 | 0 | 0 | 0 |
| Bratislava-Dúbravka | 90 | 2,7 | 0 | 0 | 0 |
| Bratislava-Lamač | 81 | 2,4 | 0 | 0 | 0 |
| Bratislava-Petržalka | 90 | 2,7 | 0 | 0 | 0 |
| Bratislava-Podunajské Biskupice | 90 | 2,7 | 0 | 0 | 0 |
| Bratislava-Rača | 90 | 2,7 | 0 | 0 | 0 |
| Bratislava-Rusovce | 81 | 2,4 | 0 | 0 | 0 |
| Bratislava-Ružinov | 90 | 2,7 | 0 | 0 | 0 |
| Bratislava-Old town | 108 | 3,2 | 0 | 0 | 0 |
| Bratislava-Vajnory | 81 | 2,4 | 0 | 0 | 0 |
| Bratislava-Vrakuňa | 90 | 2,7 | 0 | 0 | 0 |
| Bratislava-Záhorská Bystrica | 81 | 2,4 | 0 | 0 | 0 |
| Košice | 80 | 2,4 | 0 | 0 | 0 |
| Žilina | 70 | 2,1 | 75,00 | 0 | 0 |
| Trenčín | 90 | 2,7 | 63,63 | 0 | 22,22 |
| Nitra | 90 | 2,7 | 0 | 0 | 28,57 |
| Trnava | 88 | 2,6 | 1,00 | 0 | 33,33 |
| Prešov | 90 | 2,7 | 20,00 | 0 | 66,67 |

Source: SARIO, 2008

Tax on apartments

Tax on apartments rates:

The annual tax rate is 1 SKK (0,03 EUR) per square meter. The tax rate can be increased or decreased by the concerned municipality, with effect from January 1st of the corresponding taxation period.

Tax on apartments base:

The base for the apartment tax is the size of the floor area of the apartment or non-residential premise in square meters.

taxes for municipal waste and small construction waste

A local fee for municipal waste and minor construction waste is paid for municipal waste with the exception of electro-waste and minor construction waste originating on the territory of the municipality.

The tax rate:

- at least 0.10 SKK and at most 1.60 SKK (0,003 – 0,05 EUR) per one liter or dm³ of municipal waste or minor construction waste or at least 0.20 SKK and at most 5 SKK (0,006 – 0,14 EUR) per one kilogram of municipal waste or minor construction waste
- at least 0.20 SKK and at most 3.30 SKK (0,006 – 0,1 EUR) per person and calendar year, in the event that no quantity collection is established in the municipality

MOTOR VEHICLE TAX

Road tax shall be levied only on specified road motor vehicles and trailer vehicles used for or in connection with business activities. The road tax also applies to those taxable persons who use motor vehicles for both private and business purposes. Road tax is a local tax determined by the self governing regions and it is almost identical in every region.

For **personal cars** the road tax is determined by the capacity of an engine in cubic centimeters:
From 900 cm³ – over 3 000 cm³ it is 1 700 SKK – 6 300 SKK (50 – 187 EUR)

For **buses and utility vehicles** it's determined by axles and weight in tons:
1-2 axles: 1 800 SKK (53 EUR) for weight less than 1t and up to 72 350 SKK (2 142 EUR) for more than 30t
3 axles: 14 820 SKK (439 EUR) for less then 15t and up to 81 420 SKK (2 410 EUR) for more than 40t
4 axles: 19 500 SKK (577 EUR) for less then 23t and up to 69 410 SKK (2 054 EUR) for more than 40t

Source: SARIO

* Used average exchange rate for 2007 1 EUR = 33,781 SKK

INDIRECT TAXES

VAT

Value Added Tax in the Slovak Republic includes one **tax rate of 19%** applied for almost all taxable supplies except of those stated in the annex 7 of the Act on VAT tax 222/2004. Supplies listed in the annex 7 include some medical products and medical equipment as well as books, brochures and leaflets (except of those where advertisements represent more than 50 % of their content). They are taxed at **10%**.

EXCISE TAXES

Excise taxes consist of the following:

- Excise duty on beer
- Excise duty on wine
- Excise duty on spirits
- Excise duty on tobacco products
- Excise duty on mineral oil

SHORT LIST OF BASIC LEGAL REGULATIONS WITHIN TAX LAW

- Act No. 595/2003 on Income Tax
- Act No. 582/2004 on Local Taxes and Local Fees for Municipal Waste and Minor Construction Waste
- Act No. 222/2004 on VAT Tax
- Act No. 98/2004 on the Excise Duty on Mineral Oil
- Act No. 104/2004 on the Excise Duty on Wine
- Act No. 105/2004 on the Excise Duty on Spirit
- Act No. 106/2004 on the Excise Duty on Tobacco products
- Act No. 107/2004 on the Excise Duty on Beer

You can find the Acts in English on the web site of the Ministry of finance of the Slovak republic:
<http://www.finance.gov.sk/en/Default.aspx?CatID=52>



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