Doing Business in Slovakia 2015

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Foreword: Eva Belková

Dear friends and business partners,

Welcome to this edition of the **Baker Tilly Guide to Doing Business in Slovakia** – a brief yet insightful overview of investment opportunities in this dynamic Central European country.

Slovakia is renowned for its well-educated multi-lingual workforce, and a business environment that attracts and supports international investment and innovation. This guide covers issues such as the business climate, company structures, finance and investment, accounting, taxation and the legal framework – in fact all that a business considering investing in Slovakia needs to know.

Baker Tilly Slovakia – one of the leading firms in the country – provides everything a future investor requires to make the right decisions. Our experienced team comprises auditors, tax and legal advisors, accountants and payroll specialists. This ensures the delivery of comprehensive advisory built on the pillars of excellence and innovation – tailored to your unique business requirements and expectations.

Trust our Baker Tilly team to maximise your business potential in Slovakia.

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Eva Belková

Managing Director

Baker Tilly Slovakia

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1 Fact sheet

Geography

Location	Central Europe
Area	49,035 km^2
Land boundaries	Poland, Czech Republic, Austria, Hungary, Ukraine
Coastline	None (landlocked)
Climate	Temperate, continental climate with relatively hot summers (average high 26°C) and cold winters (average low 0°C), annual average rainfall is 800 mm.
Terrain	Agricultural lowland in the south and rugged mountains in the central and northern part of Slovakia with Gerlachovský štít (2655 m.) its highest peak.
Time Zone	GMT + 1

People

Population	5.4 million. Approximately 55% of Slovakia's population is urbanized.
Ethnic Groups	Slovak, Hungarian, Romany, Czech, Ukrainian, Russian, German and Polish
Religion	Roman Catholic (62%), Evangelical (5.9%), Greek Catholic (3.8%), Reformed Christian communities (1.8%)
Language	Slovak (official), many people speak a second language, including Russian (54%), German (49%), English (46%) or French (7%)

Government

Country Name	Slovak Republic
Government Type	Parliamentary democracy. The supreme law of Slovakia is the Constitution, which was passed on 1 September 1992 and ratified by national referendum The government system of the Slovak Republic is based on the separation of and balance between the legislative, executive and judicial powers.

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Capital	Bratislava
Administrative divisions	The Slovak Republic is divided into 8 regions called Higher Territorial Self-governing Units, which are further divided into municipalities.
Political situation	The Government of the Slovak Republic is the head of the executive. It is composed of the presiding Prime Minister, and Deputies and Government Ministers. The Government is appointed by the President of the Slovak Republic on the recommendation of the Prime Minister. For its policy and administration, the Government is responsible to the National Council of the Slovak Republic (the Slovak parliament has 150 members). The president is elected for a five-year term and Parliament for four years. Both are directly elected by the electorate.

Economy

GDP – per capita	US$ 26 600 (2013)
GDP – real growth rate	2.4% (2014) 2.5% (2015 est.)
Unemployment	12.4% (January 2015)
Currency (code)	Euro (€)

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2 Business Entities and Accounting

2.1 Registration Requirements

The registration of legal entities in the Commercial Register requires, among others, the following documents:

- Compliance with minimum capital requirement if necessary
- A trade license according to the trade Licensing Act for the appropriate business activity (free trades – no special qualification required, craftsman trades – specific education required, regulated trades – special qualification such as certificates or examination required) if necessary
- Articles of Association and statute of company if necessary

Business areas such as banking, insurance, and finance require a special approval stated in Slovak law. Generally, citizens of EU member states and OECD member states are entitled to be statutory representatives in the Commercial Register without any restrictions, whereas citizens of other countries (non-EU and non-OECD state citizens) have to hold a temporary residence permit first. Companies may start their business as soon as registered by the Commercial Register.

2.2 Companies

The Commercial Code, one of the fundamental laws concerning business, regulates entrepreneurial activities and defining the business activities of an individual or legal entity. The Commercial Code provides various legal business structures in Slovakia that have to be registered in the Slovak Commercial Registry.

2.2.1 Joint-stock Company

A joint-stock company (akciová spoločnosť - a.s.) may be founded by a sole legal entity or by two or more individuals, resp. legal entities. A joint stock company may be public or private. The company exists independently of its shareholders and is liable with its total assets for any breach of its obligations, whereas shareholders are not liable for the company's debts and obligations.

Other special features regarding a joint-stock company:

- Minimum company capital of EUR 25 000 is required
- Three obligatory bodies – Board of Directors, General Meeting of Shareholders, Supervisory Board
- Reserve fund establishment and supplement
- Abscission of shareholders and management
- Annual audit requirement once the criteria are met (turnover, assets, number of employees)

2.2.2 Limited Liability Company

The Commercial Code enables both individuals and legal entities to set up a LLC (spoločnosť s ručením obmedzeným - s.r.o.) from one up to 50 establishing members. This company exists independently of its shareholders. The liability of shareholders is limited up to the amount of the unpaid shareholders' contribution registered with the Commercial Register. However, the company is liable for a breach of its obligations to the full extent of its assets.

Other special features regarding a limited liability company:

- Minimum company capital of EUR 5 000 is required
- Minimum amount of shareholding of each shareholder is EUR 750
- An individual is enabled to establish up to three companies as a sole founder.
- A company owned by a sole shareholder may not be the sole shareholder of another company
- Two obligatory bodies – General Meeting, Executives, Supervisory Board is not required
- Reserve fund establishment and supplement once the company becomes profitable
- Annual audit requirement once the criteria are met (turnover, assets, number of employees)

2.3 Partnerships

2.3.1 General Partnership

General partnership (verejná obchodná spoločnosť - v.o.s.) is a company in which two or more individuals or legal entities (partners) carry out business activities under a common business name. Partners in such a company are liable for a breach of its obligations with all the partners' assets and property, i.e. general liability. The Commercial Code does not require establishing registered capital. Unless stated otherwise in the Memorandum of Association, each partner is empowered to act on behalf of the partnership.

2.3.2 Limited Partnership

A limited partnership (komanditná spoločnosť - k.s.) must be founded by at least one limited partner and at least one general partner. Both partners may be individuals or legal entities. Limited partners are liable up to the amount of their unpaid contributions registered in the Commercial Register, i.e. limited liability. General partners are liable for the partnership's obligations with their entire property, i.e. unlimited liability. Both individual and legal entities may become partners with general liability in only one entity at any given time. The minimum contribution of a limited partner is EUR 250, which is his or her minimum amount of liability.

2.4 Enterprise of Branch Offices of Foreign Entity

Enterprises or branch offices have to hold a trade license or other authorization in order to provide a full list of their planned activities stated in the application for entry to the Commercial Register. The Commercial Code also defines an enterprise's and branch's internal dealings, and the liabilities of its members or partners (i.e. obligations).

The head of the enterprise or branch has to be registered in the Commercial Register as a director. The manager may be a Slovak national or a foreigner.

Minimum registered capital requirements and withholding tax on profit repatriation does not exist.

2.5 Other Business Forms

2.5.1 Cooperative

A cooperative may be formed by at least five members being natural persons, or at least two members being legal entities. The minimum requirement for registered capital is EUR 1 250. The main purpose of a cooperative is to undertake the cooperative business activities of its members. A cooperative is liable for any breach of its obligations with its entire property, while the members are not liable for the cooperative's obligation.

2.5.2 Association Agreement

A group of individuals or legal entities may establish an Association in order to gain one or more mutual goals. Members may exit the Association at any time. However, Slovak law does not consider an Association as a legal entity. The members are liable for the Association's obligations to third parties. There is an equal share of profit unless the Agreement specifies otherwise.

2.5.3 Contract of Silent Partnership

The other form of doing business in Slovakia is Silent Partnership, where a written contract between a silent partner and entrepreneur is concluded. The silent investor invests in an entrepreneur's business in order to get a share of the profit, while the silent partner is liable for the entrepreneur's liabilities only up to the amount of investment. A contract of silent partnership does not empower the silent investor of a legal entity.

2.5.4 Sole Trader

A natural person may also establish a business without being a legal entity. The Trade License Office issues trade licenses whereby individuals perform business activities. Trades are classified into three categories:

- Craft trades – aside from the general conditions, professional qualification needs to be proved by submitting a certificate of completed education

- Regulated trades – both general conditions and professional qualification need to be proved by a certificate of a specific education or training in the field of the constituent trade
- Unregulated trades – it is sufficient to meet the general conditions

2.5.5 European Companies

All European companies – European Company (SE), European Economic Interest Group (EEIG) and European Cooperative Society (SCE) – may be formed with a registered office in the Slovak Republic.

2.6 Audit and Accounting Requirements

The main accounting principles, almost identical to IFRS, are as follows:

- Assumption of going concern basis
- Accrual and matching concept
- Prudent valuation of each asset item considering precautionary principles
- Consistency between accounting periods enables disclosure of significant changes and retrospective corrections
- Creditors and debtors valuation in EUR (if denominated in foreign currency) with the ECB exchange rate on the date proceeding the date of accounting transaction

The following entities are required to have their individual financial statements audited according to the Act on Accounting:

- Business capital companies (limited liability companies, joint-stock companies and limited partnerships) and cooperatives, if two out of three of the following criteria as of the balance sheet date and for the immediately preceding accounting period are met:
  - Total gross value of assets exceeds EUR 1 000 000
  - Total net turnover exceeds EUR 2 000 000
  - The average number of employees exceeds 30
- All listed companies
- Other entities that are required to be audited according to special legislation

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- All entities preparing both individual and consolidated financial statements in accordance with IFRS
- Certain organizations stipulated by law, the annual amount of received percentage donations of income tax exceeds EUR 35 000

The most crucial change introduced by the amendment to the Act on Accounting, which came into effect on 1 January 2015, was classification of accounting entities according to their size. The amendment has brought measures which reduce the obligations arising from accounting mainly in regard to financial statement preparation, as well as decrease bookkeeping costs for small businesses.

	Net amount of total assets in TEUR	Net turnover in TEUR	Average number of employees
Micro accounting entity	up to 350	up to 700	up to 10 employees
Small Accounting entity	350 - 4 000	700 - 8 000	10 - 50 employees
Big accounting entity	over 4 000	over 8 000	over 50 employees

The accounting entity has to meet at least two of the three above-mentioned criteria while classifying, and this during the two subsequent accounting periods.

2.7 Filing Requirements

The year-end financial statements must be submitted together with the corporate income tax return to the tax office within the deadline for filing the tax return (generally 31 March). These completed documents together with the announcement of the date of financial statements approval by the shareholders' meeting are put into electronic form by the Financial Authority (if applicable) and filed with the Register of Financial Statements within up to 40 days. An annual report must be prepared if a company has to have its financial statement audited by an independent auditor. An annual report consists of financial statements and an auditor's report.

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3 Finance and Investment

3.1 Exchange Control

There are no restrictions on foreign currency exchange or the import or export of capital. Both residents and non-residents may hold bank accounts in any currency.

3.2 Banking and Sources of Finance

National Bank of Slovakia (Národná Banka Slovenska) is responsible for implementing the Eurosystem's monetary policy, the stability of the financial system and payments system regulation. The prudential regulation of banks, insurance companies, superannuation (pension) funds, credit unions are also the responsibility of the National Bank.

The commercial banks operating in the Slovak Republic provide the majority of short-, medium- and long-term loans / financing with negotiable repayment terms and fixed or variable interest rates. Slovak banks are free to participate in virtually all forms of financial services. There is also a wide range of merchant banks operating in the Slovak Republic, many of which are associated with some of the world's largest financial institutions.

3.3 Foreign Investment Incentives

The Slovak Government provides foreign and local investors with investment incentives to support investment. The limits for state aid are determined by EU regulations, and depend on the relative development of the region where the investment is located, the unemployment rate, and the minimum investment volume. Based on these variables, the intensity of aid (resp. the maximum proportion of eligible costs) may be approved for an investor in particular investment incentives, such as investment aid, cash grant, income tax relief, and contribution for new jobs. The Bratislava region is excluded from such grants and incentives.

Forms of incentives:

A Indirect

- Tax relief
- Divestiture of immovable state-owned assets at a price lower than market price

B Direct

- Cash grants for the acquisition of fixed assets
- Cash grants for newly created jobs
- Cash grants for training

3.3.1 Investment Aid Prerequisites

A request for investment aid must be submitted to the relevant authorities. Compliance with both the general and specific conditions is reviewed according to the Investment Aid Act. Once the conditions have been fulfilled, the Ministry of Economy issues an official offer and the project can be officially begun by the applicant. The approval of the European Commission is required if capital expenditures exceed EUR 50 million.

3.3.2 National and Local Incentives

EU funds

The position of the Slovak Republic has strengthened in the budget period 2014 – 2020, with EUR 13 billion available. This amount is covered by both the Structural and Cohesion Fund, and the majority of the amount will be spent by public institutions.

Industrial parks

Industrial parks can be developed by municipalities using state funding. Groups of investors are usually requested to send a letter of intent at the pre-development stage. These benefits offered by municipalities are not considered as state aid.

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SARIO

The Slovak Agency for Investment and Commercial Development (www.sario.sk) is the main government organization assisting investors in Slovakia. Its mission is to increase foreign investment in Slovakia, and provide foreign investors with comprehensive information about the investment environment and guidance through the initial stages of the investment process.

3.4 Tariffs

The Slovak Republic is an EU member state. Consequently, through the EU's membership in the World Trade Organization (WTO), it has undertaken not to raise tariffs above levels agreed in trade discussions.

Additionally, the EU has developed an extensive network of bilateral free trade agreements.

3.5 Research and Development

Starting from January 2015 the Government of the SR is backing companies that focus on research and development by offering cost deductions. In realising a project, a company can deduct a sum of:

- 25% of the costs expended on research and development in the tax period for which a corporate income tax return is submitted,
- 25% of payroll and other labour costs of an employee, whereby an employee participates in a R&D project, is a citizen of an EU member state and younger than 26 years old, and has finished daily systematic preparation for a profession with a respective education degree in the last two years,
- 25% of the costs expended in the tax period for R&D included in super deduction that exceed the sum of costs expended in the previous tax period for R&D included in super deduction.

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4 Employment Regulations

4.1 Labour Market

Slovakia is a leader in Central Europe regarding labour productivity, expressed both per hour and per person. Of the V4 countries, Slovakia has had the most positive trend in labour productivity over the long term. Moreover, 93% of the Slovak workforce has secondary or higher education, and 81% of the Slovak population speaks a language other than their mother tongue.

The average gross monthly salary was EUR 824 in 2013, and as of 1st January 2015 the minimum monthly wage was EUR 380. Average monthly wages are significantly regionally-dependent, from EUR 717 in the eastern regions to EUR 1110 in the Bratislava region. Wages also vary among professions.

93% of the Slovak workforce has secondary or higher education, which ranks among the highest in the EU. Moreover, those with university diplomas has increased in recent years, with over 63 thousand graduates in 2014. There is a strong tradition in engineering, and eight scientific parks are currently being constructed at Slovak technical universities.

4.2 Entry Visa and Work Permit Requirements

Citizens of the European Economy Area can enter the Slovak Republic without any additional conditions or formalities if they hold a valid identification card. They are obliged to report to a Foreigner Police Office within 10 workdays after entry into Slovakia if their stay will exceed three months.

Citizens of a third country (i.e. non-EEA residents) have to apply for a temporary or permanent residence permit before arriving in Slovakia, whereas a temporary permit is granted for one purpose only (e.g. study, employment). This residence permit is necessary in order to be granted a work permit. A work permit is granted by the local labour office for a period of two years (with the option of an extension). Slovak immigration law also provides a simplified procedure for non-EU and EEA inhabitants to apply for a Blue Card, which covers both a work and temporary residence permit. The holder of such card is considered a highly qualified specialist with a university diploma or over five years' professional practise.

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4.3 General Employment Matters

The Labour Code regulates the rights and responsibilities of employees and employers. The last Amendment to the Labour Code effective from 1.1.2015 includes:

- An initial probationary period can be extended from three months up to six months in the case of specific managerial positions.
- Fixed employment contracts may be concluded for a maximum of two years and prolonged only twice within two years.
- The maximum length of the working week is 40 hours.
- Overtime work can be performed after agreement with employees up to a maximum 400 hours per calendar year.
- Minimum annual paid leave is 4 weeks, employees aged above 33 years are entitled to 5 weeks.
- Both employee and employer can terminate an employment contract by serving notice. Notice periods are determined by the length of service for the employer.
- Statutory redundancy payments apply to employees dismissed due to an employer's organizational changes. The amount of statutory redundancy payment depends on the length of service (1 – 4 average month's salary).
- An employment contract can be terminated at any time upon the mutual agreement of both parties.
- The employer can terminate the contract immediately in exceptional cases, such as an employee's criminal conviction or serious breach of work discipline.
- In addition, according to the Amendment to the Labour Code effective from 1.1.2013, flexible working hours (flexikonto) and shared work positions were introduced with several modifications to support the creation of new jobs and provide better grounds for more flexible work arrangements.
- Employers are required to notify the appropriate labour office of a mass redundancy 30 days prior to issuing notices to their staff. Additionally, the employer, in co-operation with the employees' representative (or trade union), should prepare specific regulations regarding the proposed redundancies.

4.4 Social Security Contributions

When Slovakia became a member state of the European Union on 1 May 2004, the EU Social Security regulation was introduced to the country's legislation. As a result, both employer and employee have the obligation to pay social security and health security contributions in the amount defined by law to the relevant Slovak authorities. As stated below in the table, the combined rate for employee contributions is 13.4% of the assessment base, whilst employer contributions is 35.2%.

	Employee %	Employer %	Max. monthly assessment base in EUR
Pension insurance	4.0	14.0	4 120
Disability insurance	3.0	3.0	4 120
Sickness insurance	1.4	1.4	4 120
Unemployment insurance	1.0	1.0	4 120
Reserve Fund	-	4.75	4 120
Guarantee insurance	-	0.25	4 120
Accident insurance	-	0.8	unlimited
Health insurance	4.0	10.0	4 120
Total	**13.4**	**35.2**	

4.5 Whistleblower Protection Act

The whistleblower Protection Act, which came into effect on 1 January 2015, defines the protection of whistleblowers in several ways, depending on whether the whistleblowing is made externally in the form of a report by the commission of a crime or delict, or internally within the corporation in respect of an internal system of inducement proceedings stipulated by this new Act.

The Act defines the obligation of government bodies and employers with over 50 employees to implement an internal system of inducement proceedings. Such subjects are obliged to designate a responsible officer, respectively a separate department, which accepts employees' inducements.

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5 Taxation

5.1 General structure

The current Slovak tax system comprises the following taxes:

- Direct taxes
  - Personal income tax
  - Corporate income tax
  - Local taxes (real estate tax and other local taxes)
  - Motor vehicle tax
- Indirect taxes
  - Value added tax
  - Excise duties (on alcoholic products, tobacco products, mineral oil, electricity, coal and natural gas)

5.2 Corporate Income Tax

The worldwide income of Slovak legal entities incorporated in Slovakia is subject to tax, whereas only income with a source in the Slovak Republic of foreign entities (permanent establishments) is subject to corporate income tax.

Corporate tax is levied on a tax base. The tax base is statutory accounting profit or loss adjusted for certain non-deductible and non-taxable items. The tax rate has been 22% since 1 January 2014.

Thin capitalization rules were introduced in Slovakia on 1 January 2015. That results in the limitation of tax deductible costs in the form of credit interest in the case the creditor is a dependent entity to the debtor and interest exceeds 25% of the coefficient amount (EBITDA = earnings before interest, taxes, depreciation and amortization) in the respective tax period.

5.2.1 Tax Deductible Costs

Income tax legislation generally defines tax expense as any documented expense (cost), which has been incurred by the taxable party in order to generate, assure and maintain income, and which has been posted in the accounting books of the taxable party.

Except for the general definition of tax expense, Slovak tax legislation also stipulates costs that are not deductible (e.g. entertainment expenses, travel allowances exceeding statutory limits, taxes paid on behalf of other taxpayers, gifts, etc.).

Moreover, some costs are considered for tax expenses after settlement is performed, e.g. rent, marketing and market research studies, procurement provisions, advisory and legal services, and expenditures to get respective standards and certificates.

5.2.2 Tax Depreciation

Tax depreciation charges are considered as tax deductible expenses for tax purposes at statutory rates. There are two methods of depreciation allowed by the legislation, i.e. straight line and accelerated. Some assets may not be depreciated, such as land. The Slovak Income Tax Act divides tangible assets into six categories since 1 January 2015, and specifies a period from 4 to 40 years over which all assets in a given category are to be depreciated.

5.2.3 Tax Loss Utilization

The utilisation of tax losses incurred after 1 January 2010 is limited by the amendment, which came into effect on 1 January 2014, and may be utilized only equally over a maximum of four consecutive tax periods.

5.2.4 Minimum Tax

All corporations, including those with a tax loss, will pay minimum tax from the tax year 2014, depending on company revenues and whether the tax subject is a VAT payer:

- Non-VAT payer with revenues up to EUR 500 000 – tax license EUR 480
- VAT payer with revenues up to EUR 500 000 – tax license EUR 960
- Tax subjects with revenues above EUR 500 000 – tax license EUR 2 880

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5.2.5 Dividends

The dividends distributed from net accounting profits (retained earnings) incurred after 1 January 2004 are not subject to tax.

In addition, since the amendment to the Health Insurance Act in 2010, dividends distributed to individuals from profits incurred after 1 January 2011 are subject to health insurance contributions at the rate of 10%. Dividends incurred after 1 January 2013 paid out to individuals are subject to health insurance at the rate of 14%.

5.2.6 Filling Requirements

Generally, the tax period is equal to the calendar year. However, companies can apply the financial year as the tax and accounting year. A tax return shall be submitted to the respective tax authority up to three calendar months following the last day of the tax period. As per an announcement submitted within the general deadline at a respective tax office, a legal entity can extend the deadline up to an additional three or six months following the general deadline.

Group taxation is not recognised in Slovakia. All entities are taxed separately.

5.2.7 Double Taxation Avoidance Treaties

The Slovak Republic has concluded double taxation avoidance treaties with 64 states. These bilateral tax treaties are based on the OECD Model Treaty. Even if there is no bilateral tax treaty with another state, tax relief may be claimed.

5.3 Personal Income Tax

Individuals with permanent residency in the Slovak Republic or an individual who physically stays for at least 183 days in a calendar year in the Slovak Republic are considered tax residents and are taxable on their worldwide income. Only income with a source in the Slovak Republic or related to the Slovak Republic are subject to tax regarding non-residents.

Income is divided into four main categories: income from dependent activity, Income from self-employment, business, rental and artistic performance, income from capital and other income.

The tax year is the same as the calendar year, and since the Amendment to the Tax Act effective from 1.1.2013 income is taxed at a progressive tax rate of 19% and 25%.

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- If the tax base does not exceed 176.8 times the current amount of the subsistence minimum per annum, 19% tax rate is applied (i.e. EUR 35 022.31 in 2015).
- Tax base exceeding the above mentioned limit is taxed at 25%.
- A special tax rate of 5% was introduced for the income of representatives of the Slovak Republic's government.

An annual personal income tax return must be filed with the tax authorities no later than by the end of the third month following the end of the tax period (usually 31 March). The due date of payment of personal income tax is the same as the submission date. In some cases (e.g. taxpayers also received income from abroad) the submission and paying deadline can be extended up to a maximum of another three months (six months in special cases).

Inheritance and gift tax was abolished with a major amendment to the Tax Act in 2004, and real estate transfer tax was abolished in 2005. The Slovak Tax Act also includes a bank tax and a special levy for regulated entries.

5.4 Employment Related Costs

5.4.1 Social Security Costs

The combined rate for employee contributions is 13.4% of the assessment base, whilst employer contributions is 35.2% (see 4.3).

5.4.2 Payroll Tax

Employers are required to withhold tax at source on all remuneration in cash and in kind paid to employees. The withheld tax is remitted monthly to the tax authorities and considered as tax advances.

5.4.3 Fringe Benefits

Both residents and non-residents can lower the tax base with personal allowances. A tax payer is entitled to deduct a non-taxable amount of 19.2 times the subsistence minimum (i.e. EUR 3 803.33 for 2015) after several conditions have been fulfilled. Both residents and non-residents, deriving at least 90% of income from Slovak sources, may also claim a spousal allowance for a spouse living in the same household and having no or only limited income on his or her own. A taxpayer's tax liability may be reduced by child allowance of cca EUR 21 monthly per child.

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Additionally, the Slovak Tax Act defines some tax exempt incomes.

5.5 Withholding Tax

5.5.1 Domestic Payments

Withholding tax is levied on certain types of income derived in Slovakia by both residents and non-residents at a rate of 19% and is deducted at source of income. Such income mainly includes interest and revenues gained from participation or deposit certificates. The increased 35% withholding tax or 35% tax security will be applied to certain kinds of income paid to a taxpayer of a non-contractual state, whereas the 64 contractual states are listed on the website of the Ministry of Finance.

5.5.2 Payments Abroad

Withholding tax on interest and royalty payments complies with the conditions stipulated in Council Directive 2003/49/EC, which are the following:

- Direct holding of 25% of the share capital (associated EU companies)
- Minimum holding period: 2 years

5.6 Value Added Tax (VAT)

The current VAT system came into effect on 1 May 2004 when Slovakia became a member state of the EU. The current VAT Act is based on EU Council Directive 2006/112/EC.

There are several VAT registrations in the Slovak Republic:

- Registration of domestic taxable persons with full VAT deduction (if annual turnover exceeds EUR 49,790)
- Registration of foreign taxable persons with full VAT deduction
- Registration on distance selling
- VAT registrations without entitlement to deduct VAT

A VAT payer is entitled to deduct the VAT incurred upon the purchasing of goods and services used by the taxpayer for its own supply of goods and services as a VAT payer, other than for VAT exempt supplies without entitlement to deduct VAT.

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Exports are zero-rated. Some supplies are designated as exempt, including medical and financial services.

Slovak legislation provides a standard VAT rate of 20%. A reduced rate of 10% applies to pharmaceutical products, medical aids and books.

Generally the VAT period is a calendar month, unless a VAT payer was registered for VAT purposes for at least the 12 consecutive preceding calendar months and his/her turnover does not exceed EUR 100 000. In such case, a VAT payer can decide for quarterly VAT periods.

A tax return together with VAT ledger must be submitted within 25 days following the tax period by each taxpayer in paper form or electronically. Such VAT ledger represents a new obligation for VAT payers to present to the Tax Office all underlying data related to VAT liability and the VAT deduction of goods and services in electronic form since January 2014. Moreover, electronic communication for taxpayers is also obligatory since January 2014.

5.7 Other Taxes

5.7.1 Local Taxes

As a result of tax reform followed by fiscal decentralization, municipalities were given the right to levy local taxes as stipulated in the Act of Local Taxes and Local Fees. Municipalities may impose the following taxes, with real estate tax being the most important:

- Real estate
- Dogs
- Use of a public area
- Accommodation
- Vending machines
- Non-winning gaming machines
- Entry and parking of motor vehicles in historical town parts
- Nuclear facilities
- Fee for municipal waste and minor construction waste

5.7.2 Excise Duties

Excise duties are stipulated in separate acts that set out the conditions under which excise duty is levied on alcoholic drinks, tobacco, mineral oil, electricity, coal and natural gas. The tax treatment is harmonized with EU directives. Both legal entities and individuals producing excisable products (or to whom excisable products are released) may be taxable persons.

5.8 Tax Incentives for Businesses

Applicants for investment aid must fulfil several conditions of the Slovak Investment Aid Act and European legislation, i.e. general and specific conditions must be fulfilled.

Tax relief

According to the amended Investment Aid Act, a company may apply for tax relief for a maximum ten consecutive tax years. This tax relief can be approved for both newly established companies and existing companies.

Divestiture of immovable state-owned assets at a price lower than market price

An investment incentive may also be provided as a divestiture of immovable assets (land or buildings) at a price lower than market price, e.g. as a financial grant or discount on immovable asset.

Cash grants for the acquisition of fixed assets

This grant can be approved for both intangible fixes assets (patents, licenses, know-how and technical knowledge) and tangible fixes assets (machinery, land, buildings). The limits for grants depend on the nature of the investment.

Cash grants for newly created jobs

The amount varies from ten to four thousand euros per newly-created job, taking into account the region’s development, unemployment rate and anticipated wage costs.

Cash grants for training

The proportion of eligible training costs depends on the region and type of training.

6 How Can Baker Tilly Assist

Baker Tilly Slovakia is an independent member firm of Baker Tilly International - one of the world's leading networks of independently owned and managed outsourcing and business advisory firms, united by a commitment to provide exceptional client service.

Our clients know they can rely on our local capabilities and global consistency of service. This is ensured by Baker Tilly's 27,000 professionals in 693 offices across 133 countries – working together so that clients can respond positively to challenges and opportunities.

In the Slovak Republic our experts provide second-to-none service to clients across a range of industries and business sectors. This allows our clients the time to focus on what they do best, while we diligently provide the backup.

We have significant experience and expertise in providing outsourcing and advisory services. Our clients include banks, multinationals, hotels, shopping outlets, telecoms, trading, and energy companies. We provide first-class service for our clients wherever they operate – the Slovak Republic, Central Europe, and globally.

Baker Tilly Slovakia – the optimal combination of global experience and local knowledge.

6.1 Audit

We use proven global methodology and the latest, high quality auditing tools and approaches. Based on our analyses we can identify business risks that should be properly managed, and propose internal service streamlining. Our audit focuses on key areas of risk that must be addressed in order to produce accurate and faithful financial statements.

The result is an independent, detailed and reliable audit opinion based on leading-edge quality.

6.2 Tax Advisory

Our goal is to enable clients to improve their competitiveness and efficiency. We provide effective tax liability optimization strategies - identifying and implementing innovative tax planning insights, and adhering to tax compliance obligations.

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We stand for professional and comprehensive advisory, innovation, excellence, and tailor-made services.

6.3 Accounting and Reporting

We provide a wide range of external accounting, bookkeeping and reporting services in accordance with local and international accounting regulations. Our services are tailored to specific needs and requirements.

We appreciate that time is money, so the key added-value of our services is that our clients can focus on their core business activity while we deal with the accounting.

6.4 Payroll and HR

Baker Tilly Slovakia clients lower their payroll costs by utilising our dedicated payroll processing team. We provide high quality and efficient process-oriented management, with confidentiality ensured in accordance with the new Amendment to the Act on Personal Data Protection effective from 1.7.2013.

6.5 Legal

Clients trust our complete services for the establishment, running and liquidation of businesses, as well as advisory related to commercial contractual relationships.

Our labour law advisory covers the preparation of agreements so that our clients' interests are protected and the risk of disputes is minimalized.

Our team has been involved in numerous significant acquisitions, advising on transaction structuring, as well as the financing and negotiation of contractual relationships.

6.6 Start-ups

We believe that innovation holds the key to the future development of Slovakia - and young innovative start-ups need effective support. The Baker Tilly Start-ups Programme supports projects from idea development up to business establishment. We focus on nurturing the core business, and assuming all the administrative, legal and financial burdens. So while young entrepreneurs benefit from our professional skills, they have ample time to explore marketable creative possibilities.

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Baker Tilly

Audit | Tax | Advisory

About Baker Tilly

Baker Tilly is one of the world's leading networks of independently owned and managed outsourcing and advisory companies, providing exceptional and innovative services. Every day, 27,000 people in 133 countries and 693 offices combine international experience with in-depth local knowledge to ensure professional and comprehensive advisory, innovation, excellence, and tailored services to meet clients' specific requirements.

Please visit www.bakertilly.sk for further information.

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