International Tax
Slovakia Highlights 2017

Investment basics:

Currency – Euro (EUR)

Foreign exchange control – No restrictions are imposed on the import or export of capital, and repatriation payments may be made in any currency. Both residents and nonresidents can hold bank accounts in any currency.

Accounting principles/financial statements – Slovak Accounting Standards/IFRS apply for large companies, banks and insurance companies. Financial statements must be prepared annually.

Principal business entities – These are the limited liability company, joint stock company, general partnership, limited partnership, cooperative, sole proprietorship and branch of a foreign corporation.

Corporate taxation:

Residence – A company is resident if its seat or place of effective management is in Slovakia.

Basis – Residents are taxed on worldwide income; nonresidents are taxed on Slovak-source income only. Foreign-source income derived by residents is subject to corporate income tax in the same way as Slovak-source income. Branches are taxed the same as subsidiaries.

Taxable income – Corporate income tax is imposed on a company's accounting profits adjusted for deductible, nondeductible and nontaxable items. Normal business expenses may be deducted in computing the tax base.

Taxation of dividends – Dividends distributed out of profits generated from 2004 are not subject to tax to the extent they have not been deducted by the payer of the dividends (i.e. hybrid financial instruments). However, dividends distributed out of profits generated from 2017 onwards and paid to/received from a resident of a state with which Slovakia has not concluded a double tax treaty or an agreement on the exchange of information for tax purposes (i.e. a "non-contracting state") are taxable.

Capital gains – Capital gains are taxed at 22% and 21% for tax periods starting in 2016 and 2017, respectively. In some cases, capital losses are nondeductible.

Losses – Tax losses declared after 1 January 2014 may be carried forward and deducted equally from the tax base over four years. Losses may not be carried back.

Rate – 35% for taxable dividends received from a non-contracting state; otherwise, 22% and 21% for tax periods starting in 2016 and 2017, respectively.

Surtax – No

Alternative minimum tax – Yes, ranging from EUR 480 to EUR 2,880 for tax periods from 2014 through 2017.

Foreign tax credit – Foreign tax paid may be credited against Slovak tax on the same profits, but the credit is limited to the amount of Slovak tax payable on the foreign income if so provided in an applicable tax treaty. Some of Slovakia's treaties eliminate double taxation by the exemption method, meaning that income taxed abroad is excluded from Slovak taxation.

Participation exemption – No

Holding company regime – No

Incentives – Investment incentives may be available to start new production or the provision of services, to expand or modernize production or the provision of services, or for R&D. These incentives are subject to special rules in the State Aid Act and the Investment Stimulus Act.

A company may deduct 125% of the actual research and development (R&D) expenses incurred in the relevant tax period, plus relief for 25% of the actual employee labor costs and 25% of the actual R&D costs that exceed the incurred R&D costs in the previous tax period.

Withholding tax:

Dividends – Dividends distributed out of profits generated from 2017 onwards and paid to a resident entity of a non-contracting state are subject to a 35% withholding tax. Dividends distributed by a Slovak-resident entity out of profits generated from 2017 onwards to individuals are subject to a 7% withholding tax.

Interest – Interest paid to a nonresident is subject to a 19% withholding tax, unless the rate is reduced under a tax treaty or exempt under the EU interest and royalties directive. A 35% rate applies where the payment is made to a resident of a non-contracting state.

Royalties – Royalties paid to a nonresident are subject to a 19% withholding tax, unless the rate is reduced under a tax treaty or exempt under the EU interest and royalties directive. A 35% rate applies where the payment is made to a resident of a non-contracting state.

Technical service fees – No

Branch remittance tax – No

Other taxes on corporations:

Capital duty – No

Payroll tax – Payroll tax is payable by an employer at the time remuneration is paid to an employee.

Real property tax – The municipal authorities levy rates on the ownership/ occupation of real property. Rates are deductible in calculating the corporate income tax liability.

Social security – The employer is required to make pay-related insurance contributions at 35.2% of an employee's gross salary. Part of the contributions are capped.

Stamp duty – Fees are imposed, but usually are insignificant.

Transfer tax – No

Anti-avoidance rules:

Transfer pricing – Slovakia's transfer pricing rules generally follow OECD guidelines. The transfer pricing rules were extended in 2015 to apply to transactions between domestic related parties, as well as those between a Slovak resident and a nonresident related party. Taxpayers must prepare contemporaneous documentation to substantiate the transfer pricing methodology used in determining transfer prices in related party transactions.

Thin capitalization – Thin capitalization rules restrict the maximum amount of tax deductible interest on related party (foreign and domestic) loans (new and old) to 25% of the taxpayer's EBITDA.

Controlled foreign companies – No

Disclosure requirements – No

Compliance for corporations:

Tax year – The tax year generally coincides with the calendar year, although the taxpayer can elect a different fiscal year. The tax period may be shorter, for example, if the company moves from a calendar year to a fiscal year.

Consolidated returns – Consolidated tax returns are not permitted; each company must file a separate return.

Filing requirements – Slovakia operates a self-assessment regime. In general, corporate income tax prepayments are due in monthly or quarterly installments. Income tax is assessed on the basis of annual returns, which must be filed within three months following the end of the tax period. The deadline for filing can be extended by three months if a written request is submitted to the tax authorities, or by six months if a taxpayer derived foreign-source income taxable in another jurisdiction and a written request is submitted. However, the taxpayer must pay any tax due by the filing date.

As from 1 January 2016, it is possible to file an additional tax return after the commencement of a tax audit (within 15 days).

Penalties – Penalties for noncompliance with the tax law fall into two main categories: (1) late payment interest on outstanding tax liabilities, which is calculated as an annual percentage on the outstanding amount; and (2) fines, usually up to EUR 32,000 or calculated as a percentage of the underpaid tax. As from 1 January 2016, penalties for noncompliance depend on the length of time that has passed since the tax return was filed. The percentage of the fine depends on the form of the assessment of the additional tax (e.g. whether the additional tax is levied during a tax audit or is the result of the filing of an additional tax return).

Rulings – Advance pricing agreements are possible only in limited cases (i.e. in respect of a transfer pricing methodology and the method for determining the tax base for permanent establishments). Agreements are valid for up to five taxable years. Binding rulings may be issued only in limited cases.

Personal taxation:

Basis – Slovak residents are taxed on worldwide income;

nonresidents are taxed only on Slovak-source income.

Residence – An individual is resident if he/she has a permanent address in Slovakia or spends more than 183 days during a calendar year in the country.

Filing status – Individuals must file separate tax returns; joint filing is not permitted.

Taxable income – Employment income, including most employment benefits, is taxable. Profits derived from the carrying on of a trade or profession generally are taxed in the same way as profits derived by companies. Investment income in the form of dividends distributed out of profits generated in 2017 and following years is subject to tax.

Capital gains – Capital gains generally are included in aggregate income, although gains from the sale of assets used to generate income or to carry on a business or independent profession are treated as business and independent professional income.

Deductions and allowances – Subject to certain restrictions, deductions are granted for compulsory health and social contributions, up to specific limits. Personal allowances are available to the taxpayer and his/her spouse, children and dependents if certain requirements are met.

Rates – The individual income tax rate is 19% up to a tax base of EUR 35,022.31 (adjusted on an annual basis), and 25% on the excess.

Capital gains from the sale of shares traded on regulated markets within the EU and that are held for at least one year are not subject to tax in Slovakia. If the shares are not held for at least one year, the capital gains are considered taxable income taxed at the general progressive rates (19% and 25%). Capital gains that do not exceed EUR 500 are not taxable.

A 19% withholding tax is levied on interest income.

Dividends are taxed at a 7% rate. Dividends distributed to Slovak residents by a company with its registered seat in a non-contracting state, and dividends distributed by a Slovak company to residents of a non-contracting state, are subject to a 35% tax rate.

Other taxes on individuals:

Capital duty – No

Stamp duty – Fees are levied on the transfer of real estate, but are insignificant.

Capital acquisitions tax – No

Real property tax – Tax is levied by the municipal authorities on the ownership and occupation of real property.

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – The social security system consists of social security and health insurance contributions. If an individual is on the Slovak payroll, the employer withholds social security on a monthly basis. A self-employed individual also must make pay-related insurance contributions, with the amount based on the individual's "salary."

Compliance for individuals:

Tax year – Calendar year

Filing and payment – Tax on employment income is withheld by the employer and remitted to the tax authorities. In general, income other than employment income is self-assessed. Individuals must file a tax return and make monthly or quarterly prepayments of tax during the calendar year.

Penalties – Penalties apply for failure to comply with filing and/or payment obligations. The percentage of the fine depends on the form of assessment of the additional tax (e.g. whether the additional tax is levied during a tax audit or as a result of the filing of an additional tax return).

Value added tax:

Taxable transactions – VAT is imposed on the sale of goods and the provision of services, and on imports.

Rates – The standard rate is 20%, with a reduced rate of 10% applying to certain pharmaceutical and medical products and certain groceries (e.g. meat, bread, etc.). Certain supplies (e.g. financial and insurance services) are exempt.

Registration – All individuals or legal entities that carry out economic activities in Slovakia are regarded as taxable persons. The registration threshold for VAT purposes is taxable turnover of EUR 49,790 within the preceding 12 consecutive calendar months. Taxable persons below the threshold can apply for voluntary registration. Nonresidents that make taxable supplies of goods or services in Slovakia must register before the supply is made, unless the reverse-charge mechanism is applied by the recipient of the supply.

Filing and payment – The standard assessment period is the calendar month. A registered person can apply for a calendar quarter assessment period if its turnover is less than EUR 100,000 in the preceding 12 consecutive months and the person has been registered for VAT for at least one calendar year.

The VAT return must be submitted by the 25th day of the month following the relevant tax period. When the return is submitted monthly or quarterly, payment in full must accompany the return, i.e. VAT for a relevant tax period is payable by the 25th day of the following month.

A VAT transaction statement must be submitted by the due date of the VAT return (i.e. by the 25th day of the month following the relevant tax period). For services with a place of supply outside Slovakia and in respect of intra-community supplies of goods, EC Sales Lists should be submitted.

A cash-accounting scheme is introduced as from 1 January 2016.

Source of tax law: Income Tax Act, VAT Act, Administration Taxes Act, Municipality Taxes Act

Tax treaties: Slovakia has concluded 66 income tax treaties.

Tax authorities: Slovak Tax Directorate

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