Slovakia

Slovakia offers a super deduction for qualified expenditures from 125% to 150%.

Background

Slovakia's corporate income tax rate is 22%.

Slovakia introduced a 125%-150% R&D super deduction effective for tax years beginning on or after 1 January 2015. A super deduction was not permitted under prior law. Slovakia also offers tax credits for companies located in less developed regions and for certain specified projects.

Nature of incentives

Super deduction: A super deduction equal to 125% of qualified costs incurred during the implementation of research and development projects are currently deductible from the tax base. An additional super deduction of 150% is available for the portion of the current qualifying R&D expenditure that exceeds the prior year qualifying expenditure. If the super deduction cannot be utilized in the year it is claimed, then it can be carried forward and utilized within the next four taxable periods. This benefit cannot be combined with any other type of incentives.

Tax relief for technological centers: In order to encourage companies to locate (and expand) in less developed regions of Slovakia, the government offers state aid in the form of a tax credit. The amount of the tax credit tax is determined by the Ministry of Economy and can range from 25% to 35% of qualified costs (capital investment or 2 year labor costs), depending on the region. The tax credit is applied against annual income tax liabilities until it is fully utilized or the credit expires (10 years after it is granted). For companies that expand, a special formula is applied to determine the amount of the credit. In lieu of a tax credit, companies can also apply for cash grant under this program.

Tax relief for R&D projects: The Ministry of Education can award a tax credit to companies that pursue certain types of specified projects that entail basic/applied research, experimental development, or certain feasibility studies. The costs that are considered in determining the amount of the credit includes operational costs, as well as the cost of IP protection and the reimbursement of wages for the temporary assignment of external researchers. The percentage applied by the government to eligible costs to determine the magnitude of the tax credit depends on the size of the company (a higher percentage is applied to SMEs) and the type of project (a higher percentage is applied to research, as distinguished from development, projects). Companies can also apply for cash grants.

Other non-tax related R&D incentives: Cash grant programs are also available for research and development including capital expenditure (CAPEX) investment or operational costs (OPEX) from EU funds and directly from the Slovak government.

Eligible industries and qualifying costs

R&D Super deduction: Qualifying research and development has a measurable element of novelty and addresses technical uncertainties. Qualifying research can address issues that are known in the industry, as long as the taxpayer can prove that it must discover the information it needs to develop new/improved products, services, or processes because the information is inaccessible, unusable or was simply not available at the time the project was commenced.

Qualified activities include the introduction of new or improved technologies, systems or services, and the production of new or improved materials, products and equipment, design and verification of prototypes, pilots or demonstration equipment.

The criteria for qualified research are similar to the definition of R&D in the OECD Frascati Manual.

Qualifying expenses include direct costs (e.g., wage costs, costs of material or overhead expenses) and indirect costs (e.g., depreciation of assets or utility costs).

Fees paid for subcontracted R&D services are qualifying expenses if the work is subcontracted to public universities or public research institutes. Fees paid to certified private R&D organizations are also eligible as long as the organization does not also claim the super deduction for the costs it incurred in providing the qualified services. The super deduction excludes expenses paid through government and public subsidies.

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Technological centers: Generally, all industries, except industries excluded for EU regional aid (e.g., agriculture, steel industry), are eligible to apply for the tax credits offered to technological centers. Technological centers can be located anywhere in Slovakia, except for Bratislava region. The eligibility criteria for technological centers are:

- The acquisition of tangible and intangible assets in an amount of at least EUR 500,000, of which at least 50% is covered by the equity of the applicant.
- At least 70% of the employees have a degree from an accredited university.
- Establishing or expanding the technological center will result in at least 30 new jobs.

Companies are further required to operate the newly created or expanded part of technological centers for at least five years, but not less than the period it takes to fully utilize the tax credit.

Tax relief for R&D projects: Eligible costs include direct costs (e.g., wage costs, costs of business trips, costs of repairs, procurement, or overhead expenses) and indirect costs (e.g., depreciation of assets or costs on energy) depending on the type of R&D project.

In order to be awarded tax relief, the project must result in a minimum level of qualified expenditure. The minimum expenditure depends on the size of the entity (SME or large enterprise) and type of the activity (applied or basic research):

- Applied research: EUR 1.5M (SME) to EUR 3.5M (Large Enterprise)
- Basic research: EUR 250K (SME) to EUR 1M (Large Enterprise)

Entities that are awarded tax relief must continue operating the R&D workplace for at least five years after the incentive is fully utilized.

IP and jurisdictional restrictions

There are no IP registration requirements.

Other concerns

R&D Super deduction: Government pre-approval is not required for claiming super deductions. There is, however, a documentation requirement. The taxpayer must prepare documentation specifying the qualified activities that the researchers plan to undertaken in the project before the project commences. This documentation typically includes: (i) a description of the project specifying the objectives; (ii) a project schedule specifying the phases of the project and (iii) the details regarding the administration of the project including project staffing, and project budgets.

Technological centers: The incentives for technological centers are subject to the approval of the Slovak government. The application process is time consuming and difficult to complete.

Tax relief for R&D projects: R&D incentives depend on the availability of funding and the application process is open only if there is a published call. This incentive has many practical limitations and is rarely used.

Slovakia

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Super deductions, tax credits and grants	1. 125% - 150% super deductions 2. Tax credits for companies located in less developed regions and for certain specified projects. 3. Grants	Yes, for tax credits for companies located in specified regions and for projects qualifying under the Act on R&D Incentives.	Super deductions can be carried forward for 4 years. The tax credits for qualifying technological centers and for R&D projects (qualifying under the Act on R&D Incentives) must be utilized within 10 years.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Yes	Tax credits for technological centers are limited to the amount of the tax credit tax is determined by the Ministry of Economy can award tax credits to technological centers, but the award is limed to a tax credit ranging from 25% to 35% of qualified costs (capital investment or 2 year labor costs), depending on the region.	No	Industries excluded from EU regional aid (e.g. agriculture, steel industry) are not eligible for the tax credits that are available to technological centers.