Tax Card 2020

Effective as of May 1, 2020
Slovak Republic
CORPORATE INCOME TAX

Standard ................................................................. 21
(15*)%    Investment and mutual funds ............................ 21 %
Pension funds .......................................................... 21 %
Dividends .................................................................. 0 % / 35 %

*Starting from the tax period beginning on 1 January 2020, the tax rate for legal entities and individual entrepreneurs, whose income (revenues) does not exceed EUR 100,000 per year.
Dividends received from countries not listed by the Slovak Ministry of Finance as contractual countries or from blacklisted countries by the EU, are subject to tax at the rate of 35%.

Tax base
The tax base is determined as the accounting result adjusted by non-taxable and tax non-deductible items. In case of permanent establishments other than branches the tax base is derived from attributable income and costs.

Tax prepayments are due on the monthly or quarterly basis, depending on the last corporate income tax liability.

Tax depreciation
Tax depreciation is a tax deductible expense and is calculated for tax purposes at statutory rates. In general, a taxpayer uses the straight-line method to calculate tax depreciation charges. The accelerated method is allowed only in case of assets categories 2 and 3. Intangible assets are depreciated in accordance with the accounting regulations also for tax purposes. It is possible to interrupt the tax depreciation of tangible fixed assets. In certain cases, specifically defined by legislation, the tax depreciation must be interrupted or cannot be interrupted.

Straight-line method

<table>
<thead>
<tr>
<th>Category</th>
<th>Annual Usefulness</th>
<th>Coefficient for the first year</th>
<th>Coefficient for subsequent years</th>
<th>Coefficient for increased residual value</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 Electric and selected hybrid cars</td>
<td>2 ... 1/2</td>
<td>6</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>1 IT equipment, cars and some mechanical tools</td>
<td>4 ... 1/4</td>
<td>6</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>2 Construction &amp; agriculture machinery, TV receivers</td>
<td>6 ... 1/6</td>
<td>6</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>3 Electric &amp; cooling equipment, machinery used for metallurgy</td>
<td>8 ... 1/8</td>
<td>6</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>4 Assembled buildings, ships, crafts, locomotives &amp; reservoirs</td>
<td>12 ... 1/12</td>
<td>6</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>5 Engineering buildings &amp; buildings except for buildings stated in category 6</td>
<td>20 ... 1/20</td>
<td>6</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>6 Hotels, buildings for cultural, public and administration purposes, residential buildings</td>
<td>40 ... 1/40</td>
<td>6</td>
<td>7</td>
<td>8</td>
</tr>
</tbody>
</table>

Accelerated method
The accelerated method of tax depreciation is allowed only in case of categories 2 and 3 of the tangible assets.

<table>
<thead>
<tr>
<th>Category</th>
<th>Coefficient for the first year</th>
<th>Coefficient for subsequent years</th>
<th>Coefficient for increased residual value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>6</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>3</td>
<td>8</td>
<td>9</td>
<td>8</td>
</tr>
</tbody>
</table>

First year: acquisition price/coefficient for the first year. Subsequent years: 2 x residual value/coefficient for the subsequent years decreased by the number representing the period during which the asset has been depreciated.

Microtaxpayer
Microtaxpayers’ concept was introduced to support small enterprises. The term microtaxpayer is defined as an individual or a legal entity whose income (revenues) does not exceed EUR 49,790 in the respective tax period, and complies with certain other conditions. Microtaxpayers can benefit from e.g. faster tax depreciation charges, easier rules for tax deductible provisions against receivables or for tax losses carry forward. The provisions concerning the microtaxpayers will enter into effect on 1 January 2021.

Tax loss carry forward
Tax losses can be utilized for a period of 5 subsequent tax periods, but only up to 50% of the tax base (this limitation will not apply to microtaxpayers). The above tax loss amortization provisions apply to tax losses reported for tax periods beginning not earlier than 1 January 2020.
The tax losses declared for tax periods ended in 2016 – 2019 or their unutilized portion can be utilized equally for 4 subsequent tax periods.
As a pandemic measure in the tax return due in 2020 it is possible to utilize tax losses for 2015 – 2018 that have not been utilized yet in a maximum aggregate amount of EUR 1 million.
A company wound up without liquidation (e.g. on a merger or demerger), is allowed to transfer the right to carry forward its tax losses to its legal successor(s) to set off against subsequent taxable profits subject to certain anti-avoidance provisions.
Different rules may apply to tax losses of companies benefiting from various tax incentive schemes.

Withholding taxes on income to non-residents (for example):

<table>
<thead>
<tr>
<th>Dividends</th>
<th>Interest</th>
<th>Royalties</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>0 % / 7 % / 35 %</td>
<td>0 % / 19 % / 35 %</td>
</tr>
<tr>
<td>B</td>
<td>0 % / 19 % / 35 %</td>
<td>0 % / 19 % / 35 %</td>
</tr>
</tbody>
</table>

A) In general, distribution of profit after tax in the form of dividends is not subject to withholding tax.
Dividends paid to Slovak resident individuals and to individuals tax resident in contractual countries from profits derived after 1 January 2017 by Slovak companies are subject to withholding tax at the rate of 7 %, if the applicable double taxation avoidance treaty does not otherwise determine otherwise.
A withholding tax rate of 35 % applies to dividends paid by Slovak companies to all residents from non-contractual countries or blacklisted countries by the EU, including individuals and companies.
B) Interest paid by a Slovak resident company or Slovak permanent establishment to any associated company resident in another EU member state is not subject to withholding tax in the Slovak Republic provided that certain conditions are met (e.g. an uninterrupted direct shareholding of at least 25 % for at least 24 months).
C) Royalties paid by a Slovak resident company or Slovak permanent establishment to any associated company resident in another EU member state is not subject to withholding tax in the Slovak Republic provided that certain conditions are met (e.g. an uninterrupted direct shareholding of at least 25 % for at least 24 months).
If this condition will be met after the tax was withheld, the Tax Authorities will refund the withholding tax to the taxpayer based on a written application.
A withholding tax of 35 % applies if a payment is made to non-treaty country (any country not having concluded DTT with Slovakia or exchange of information agreement with Slovakia). Or a country blacklisted by the EU. The list of treaty countries is published by the Slovak Ministry of Finance.

Withholding tax rates may be reduced by double taxation treaties (see the list overleaf). Withholding tax normally becomes payable when the income is paid or credited to the recipient.

Exemption of income from sale of shares and a business share
Similarly to Participation Exemption regimes known from other EU countries an exemption from the corporate income tax for income from sale of shares and business shares applies provided that the following conditions are simultaneously met:
• minimum holding of 10 % of the registered capital;
• holding period for at least 24 consecutive calendar months;
• substance test: the company selling shares must perform economic activities in the territory of Slovakia, perform material functions, bear risks related to the investment and have the respective personal and material equipment.

Only legal entities (not individuals) are entitled to the exemption and it is be applicable also to shareholdings acquired up to 31 December 2017; however the holding period test on existing shareholdings started on 1 January 2018.

Exit tax

If a taxpayer decides to transfer assets or business activities abroad, an obligation to tax the economic value of all capital gains generated in Slovakia will arise (so called Exit tax) despite the fact that the profit has not been realized at the time of exit. The exit tax will be reported within a special/partial tax base and taxed at a rate of 21 %. Assets transferred outside the territory of Slovakia will be subject to tax even if no sale/change of the legal ownership arises, as long as the Slovak Republic loses its right to tax this income due to transfer of the property. It will be possible to pay the exit tax also in instalments within the period of 5 years provided that the assets are transferred to a country which enables effective collection of receivables, e. g. when the assets, tax residence or business activity are transferred, for example, to an EU Member State. Otherwise the exit tax is payable within the deadline for filing of the tax return.

Patent boxes

Patent boxes were introduced with the intent to support industrial R&D. Income for the use or the right to use of granted and registered patents, utility models and software created by the taxpayer (not purchased) will be partially exempted from a tax. The exemption will also be applicable to income generated by sale of products manufactured using a registered patent or a technical design protected by a utility model.

Controlled foreign companies (CFC) rules

Rules for controlled foreign companies (CFC) are effective as of 1 January 2019.

A controlled foreign company is a company that is registered and conducts business in a different jurisdiction than the place of residency of the controlling owner.

A non-resident company would be treated as a CFC if it is controlled by a Slovak resident or jointly with related parties, by direct or indirect share participation in the share capital or voting rights of at least 50 % or at least 50 % profit share, and the corporate income tax of the CFC paid abroad is lower than 50 % of the Slovak tax. In such instances, the corporate income tax base of the CFC would be included in the corporate income tax base of its Slovak controlling company and taxed in accordance with the Slovak tax legislation. A part of the foreign tax paid with respect to the CFC’s income could be credited against the final tax liability.

VAT

As of January 1, 2014 a VAT payer is obliged to file along with the VAT return a VAT ledger statement containing detailed information on received and issued VAT related documentation (e.g. invoices, contracts, cash register receipts).

LOCAL TAXES ACT

The Local Taxes Act enables local municipalities to administer and collect a number of specified taxes, for example property tax. The local municipalities must impose an obligatory levy for municipal waste and minor construction waste. The higher territorial units are entitled to levy the motor vehicle tax.

Pandemic period

Special provisions modifying especially deadlines and exemptions were approved as a part of the anti-pandemic crisis measures in Slovakia. These measures have temporary effect.
INVESTMENT AID AND OTHER GRANTS

Slovakia has historically had extensive investment aid legislation, which has attracted many investors to the country and has created many new jobs. Effective as of 1 April 2018, the investment aid is available for three categories of investments including industrial production, technological centers and business service centers.

Under the Slovak Regional Investment Aid Act investors can apply for:

• Subsidies for tangible or intangible fixed assets;
• Income tax relief;
• Contribution for new jobs; and
• Option to acquire real property via transfer of ownership or lease at a price lower than market value.

There are several detailed provisions and exceptions, which need to be taken into account when applying for investment aid. Conditions on the provision of the investment aid vary depending on the category and form of the investment, location and other parameters of the project.

The Regional Investment Aid Act responds to modern trends in global development such as automation, robotics and building supply chains. The aim of the Slovak investment aid legislation is to stimulate new investments in the regions with high unemployment rates and to support investments in R&D and strategic service centres supporting the employment of qualified experts.

The regional investment aids are fully funded by the Slovak state budget. These investment aids fall in the category of regional aids, they should therefore be fully compatible with the European Union State Aid regulations.

It should be stressed that:
• The investment aid amount is determined on the basis of a percentage of the eligible investment expenditure or percentage of the gross salary costs;
• The eligible investment expenditure includes investments into fixed tangible assets, such as land and buildings, intangible assets, such as know-how and licenses and gross salary costs;
• The investment project cannot start before the date of submission of the investment intention to the Slovak Ministry of Economy. Any work initiated before such a date will be excluded from the scope of eligible expenditure for investment aid;
• There is no automatic entitlement to investment aid in Slovakia and all applications for investment aid must be approved by the Slovak Government;
• All investment aid is subject to limits set by the EU state aid law and in specific cases must be notified to and approved by the European Commission;
• The maximum aid intensity for Slovakia varies between 25 % and 35 % of the eligible costs. Aid intensity depends on the unemployment rate in the respective district and form of the aid. Slovak authorities may reduce the aid amount as there is a tendency to award aid on basis of the new jobs to be created by the investments;
• Tax relief is the preferred form of regional aid;
• The Bratislava region is excluded from investment aid.

Furthermore, investors may apply for subsidies under the EU Structural and Investment Fund (ESIF) programs. The current program is set up for the period 2014 – 2020. The total available amount of ESIF funding available for Slovakia is approximately EUR 15 billion. Note that most of the funds will be destined for local and regional areas to improve infrastructure, health care etc. Furthermore, many schemes under the EU structural fund programs will be aimed at the small and medium sized businesses. However some programs may be eligible for large companies. The requirements are published on websites of responsible Ministries.

Further significant EU funds may be made available for research and innovation under the Horizon 2020 program, which is meant to stimulate the European research in order to further develop the European knowledge of the economy and society.

The Regional Investment Aid Act represents the Slovak legislation on investment aid and was adopted with effect as of 1 April 2018.

The following treaties are in force:

Armenia, Australia, Austria, Belarus, Belgium, Bosnia and Herzegovina, Brazil, Bulgaria, Canada, China, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Hungary, Iceland, India, Indonesia, Iran, Ireland, Israel, Italy, Japan, Kazakhstan, Korea (Rep.), Kuwait, Latvia, Libya, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Mexico, Moldova, Mongolia, Montenegro, Netherlands, Nigeria, Norway, Poland, Portugal, Romania, Russia, Serbia, Singapore, Slovenia, South Africa, Spain, Sri Lanka, Syria, Sweden, Switzerland, Taiwan, Tunisia, Turkey, Turkmenistan, Ukraine, United Kingdom, United Arab Emirates, United States, Uzbekistan, Vietnam (Barbados, Egypt – still to be signed or ratified or published).
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