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# Legislative changes from 1 January 2017

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Bratislava

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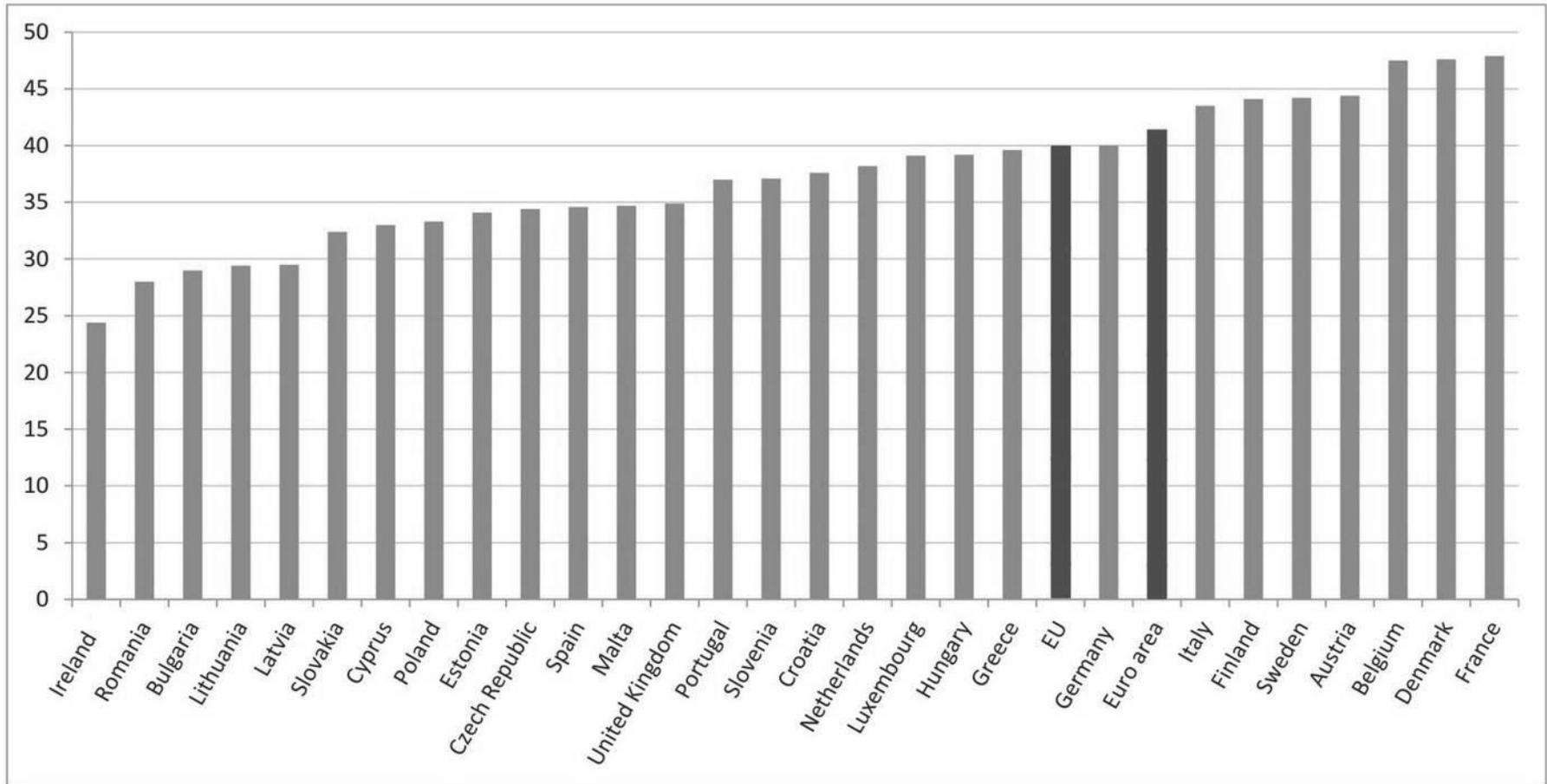
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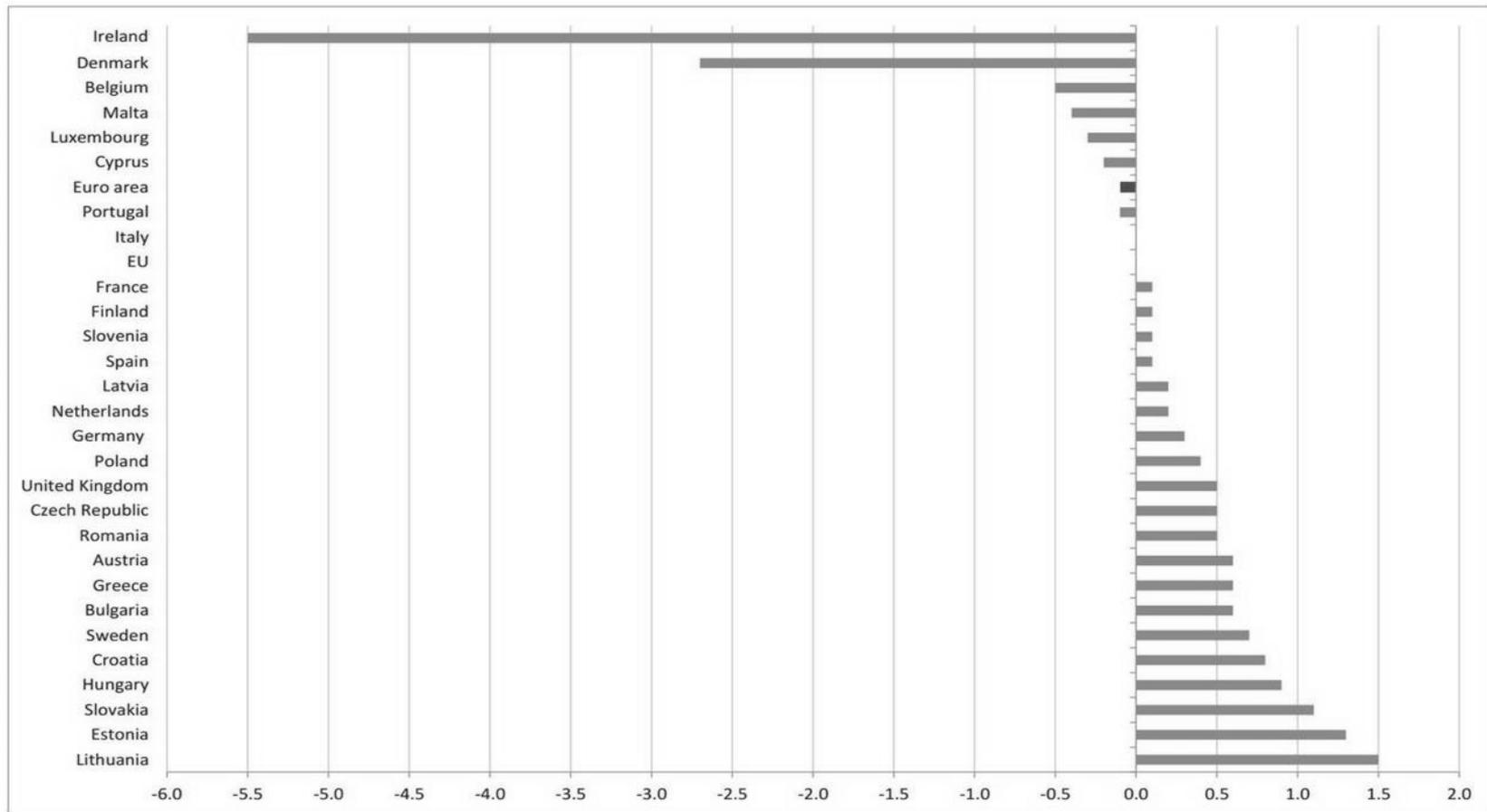
# Tax burden



# Total tax and social contributions in the EU Member States, 2015 (% of GDP)



# Change in tax-to-GDP ratio in EU Member States, 2015/2014 (in percentage points)



# Tax on personal income



# Profit shares (dividends)

(§ 3)

## Introduction of dividend taxation for natural persons

Profit shares of a trading company or a cooperative (**based in Slovakia or abroad**) distributed to shareholders (dividends) or to the members of the statutory or supervisory board (bonus) become a subject to **personal income tax** for:

- Taxpayers with unlimited tax liability
  - **Withholding tax of 7% (domestic dividends SR-SR)**
  - **Tax of 7% when they come from abroad, taxation through submitted tax return**
  - **Tax of 35% when they come from a non-contractual state, taxation through submitted tax return**
- Taxpayers with limited tax liability
  - **Withholding tax of 7%, possibility of reduction** based on the provisions of respective treaty on double taxation (contractual states)
  - **Withholding tax 35%** (non-contractual states)

Subject to the taxation are also dividends paid out for periods before the year 2004.



# Profit shares (dividends)

## Introduction of taxation on dividends by natural persons

- Dividends paid out by companies or cooperatives to **employees without shared capital of the company or the cooperative** – exemption voided.
- According to the approved modifications, subjected to the tax will be dividends paid from the profit reported for the **taxation period beginning no sooner than 1 January 2017**.
- Taxation of gross income (not reduced by expenditures).
- **Health insurance contributions from received dividends are voided** (caution: does not apply to income from employment).



# Settlement share and liquidation proceeds

## Introduction of tax on personal income

- **Settlement share** the amount of which is determined based on the individual financial statements for the accounting period starting no sooner than 01 January 2017.
- **Liquidation proceeds** - for the period from entry into liquidation no sooner than 01 January 2017.
- The value of liquidation proceeds and settlement share is reduced by the amount of repaid deposit determined per share respectively pursuant to §25a. Loss is not recognized for tax purposes.



# Settlement share and liquidation proceeds

**Mr. XY (individual person) has a share in an Ltd. company based in SR, which went into liquidation in 2015. The liquidation was concluded with liquidation proceeds. Partners received their shares from liquidation proceeds in proportion to their paid investment. Are the liquidation proceeds paid out in 2017 subject to income tax?**

The Ltd. Company went into liquidation in 2015 i.e. before 1 January 2017. The previously mentioned liquidation proceeds are not subject to tax. The company shall pay out the liquidation proceeds in gross amount.



# Settlement share and liquidation proceeds

**Mr. XY (individual person, resident of SR) received in 2018 his settlement share of 5.000 EUR from the liquidation of a Slovak Ltd., in which he was a partner. His contribution by the company founding was 2.000 EUR. The company went into liquidation on 20 March 2017. Are the liquidation proceeds paid out in 2017 subject to the income tax?**

The liquidation proceeds of 5.000 EUR after 1 January 2017 are subject to taxation, because the company went into liquidation in 2017. The liquidated Slovak Ltd. shall reduce the paid out settlement share by the paid investment of 2.000 EUR and to the remaining 3.000 EUR apply a withholding tax of 7%. The liquidated company is obligated to withhold and pay the tax and to notify about withholding the tax the competent tax authority.



# Flat-rate expenditures

(§ 6 art. 10)

## Raising the limit for the application of flat-rate expenditures

- The amendment raises the limit for the application of expenditure of 60% of total income up to 20.000 EUR. This change applies to taxpayers with business income, income from other self-employment and from the use of a work or an artistic performance, who are not tax payers or are tax payers only for a part of the tax period.
- **The application of paid insurance and contributions** in verifiable amount is unchanged.



# Corporate income tax



# Profit shares (dividends)

(§ 12 paragraph 7)

## Introduction of dividend taxation for corporations

- The amendment shall not apply to profit shares paid out to a Slovak tax resident (legal person) by another tax payer residing in Slovakia (legal person).
- The following profit shares of corporate income are subject to taxation:
  - Paid out to a Slovak tax resident (legal person) by a tax payer from a non-contractual state (legal person) – **taxation of 35% through submitted tax return.**
  - Paid out to a tax payer from a non-contractual state (legal person) by a Slovak tax resident (legal person) – **withholding tax of 35%.**
  - Paid from the profit reported for the taxation period beginning **no sooner than 1 January 2017.**
- Taxation of settlement share and liquidation proceeds is executed under similar circumstances.



# Profit shares (dividends)

(§ 3)

## Examples

**A company holds priority shares in another stock company. In 2017 it received dividends from retained earnings of the stock company from abroad. What is the taxation of the profit, if it comes from earnings for the following years:**

Year in which the profit was reported	Amount of dividend	Taxation in 2017
2003	5.000	Taxed as part of profit through submitted ax return
2011	7.000	Dividends from 2004-2016 are not subject to taxation
2016	10.000	Dividends from 2004-2016 are not subject to taxation
Total	22.000 (378/665)	Dividends from 2011- 2016 are not subject to taxation; By submitting tax return for tax period 2017 they decrease profits by transformation into tax base

# Profit shares (dividends)

(§ 3)

## Example (Contracting State)

**A Slovak company (Ltd.) holds a 50% capital share of a Czech company. In 2017 the Czech company intends to pay out dividends to the Slovak shareholder. What is the taxation of the profit, if it comes from earnings for the following years:**

Year in which the profit was reported	Amount of dividend	Taxation in 2017
2003	5.000	Dividend is not subject to tax (according to dividend guideline the amount of the capital share 50% > 10%)
2011	7.000	Dividends for 2004-2016 are not subject to tax
2016	10.000	Dividends for 2004-2016 are not subject to tax
Total	22.000 (378/665)	Dividends from 2003- 2016 are not subject to taxation; By submitting tax return for tax period 2017 they decrease profits by transformation into tax base

# Profit shares (dividends)

(§ 3)

## Example (Non-Contractual state)

**A Slovak company has a sole shareholder in Panama(non-contractual state). In 2018 dividends from the Slovak company will flow to the Panama shareholders. How can they be judged if they come from a profit that has been shown for the following years?**

Year in which the profit was reported	Amount of dividend	Taxation in 2017
2003	5.000	Withholding tax of 19%
2011	7.000	Dividends for 2004-2016 are not subject to tax
2017	10.000	Withholding tax of 35 %

# Settlement share and liquidation proceeds

**An Ltd. company is a shareholder in a general partnership company with registered office in the SR. Based on a change of the company agreement, the shareholder received in 2017 settlement share on the grounds of his departure from the company. Is this settlement share subject to income tax?**

The settlement share of the shareholder in the general partnership company is subject to income tax. The general partnership company books the received settlement share as profit and shall tax it through submitted tax return for the tax period of 2017.



# Dividends from a share fund (§ 43 art. 3 letter r, § 43 art. 9)

- Since the dividends are not subject to tax until 31 December, their final non-taxation was also ensured in § 43 art. 9 even if they flow into an investment fund as an investment profit, and they would be paid out to the final beneficiary (shareholder) from the assets in the investment fund.
- The introduction of dividend taxation from 1 January 2017 changes **the non-taxation of dividends paid to the share fund, voluntary pension fund and pension fund** defined in § 43 art. 3, letter r) of Income Tax Act and subsequently by amendment of § 43 art. 9 changes their taxation as a part of the paid out income from mutual fund assets through withholding tax of 19%.
- Based on § 43 art. 3 letter r) of Income Tax Act the paid out profit from mutual fund assets decreased only through income received by the management company is subject to withholding tax (until 31 December 2016 also including received dividends, which are not subject to taxation – deleted).

# Tax expenditures

## Specification of the application of rent expenditure - recognized after payment (§ 17 art. 19 letter b)

- It is specified that the condition of the expenditure application after payment is applied to **movable property (i.e. small tangible assets), real estate and so-called license fees** :
  - Remuneration for the granting of the right of use or for the use of an object of industrial property, software, designs or models, plans, know-how and remuneration for the granting of the right of use or for the use of copyright or a right similar to copyright law
- Applied in tax return for the **tax period of 2016**.

## Granting of material or humanitarian aid (§ 19 art. 2 letter u)

The tax expenditure will also include granting of material humanitarian aid to other country delivered free of charge the Ministry of Interior of the SR on the basis of a donation contract according to the valid mechanism.

**Expenditure for technical upgrading**, operation and maintenance of a movable object and property used on the basis of a *borrowing agreement*, excluding energy expenditures, **shall not be considered as taxable expenditure by the user** (§ 21 art. 1 letter l).



# Tax expenditures

## Contributions to ensure effective implementation of measures to address crisis situations on the financial market (§ 21 art. 2 letter O)

- Contributions into the fund for the management of financial market crisis will be treated as **tax deductible**.

## Tax deductibility of costs relating to the acquisition and operation of a motor vehicle by a "holder" (§ 17 art. 39)

- The change reflects the amendments of the Administrative Fees Act, according to which registration of the **holder** of a new vehicle (*manufacturer, manufacturer representative, authorized dealer*) into the vehicle registration is subject to an administrative fee of 33 EUR.
- If the holder does not transfer the car to another person **within 1 year and there is no payment of a registration fee equal to the registration fee by the first vehicle** within 15 days after the expiry of this period, the holder will be required to additionally increase the tax base by the already applied tax expenditures, depending on the tax period, in which the registration fee payment occurs (e.g. tax depreciation, repair costs, operation etc.).
- **Effective as of 1 February 2017**

# Tax expenditures

## Example

**A company (authorized car dealer) acquired from the vehicle manufacturer a vehicle (not yet registered in vehicle registration) in the amount of € 30,000. On 10 May 2017 the company registered the vehicle in the vehicle register and paid 33 EUR. At the same time it put the vehicle to use. Considering the fact that the company failed to sell the vehicle by 10 May 2018, the company paid on 20 May 2018 to the administrative authority a full administration fee (€ 217).**

**How does the situation influence the tax base of the company?**

In tax period of 2017, the company may apply into tax expenditures an aliquot part attributable to tax depreciation between May and December 2017 in the amount of € 5,000  $[(30.000 / 4) \times (8/12)]$ . The company failed to sell the vehicle within one year, i.e. until 10 May 2018. The company also paid to the administrative authority within the statutory period of 15 days the full fee in the amount of € 217. Provided that the company does not sell the car until the end of the tax period, it can apply the tax depreciation of the car in the amount of 7,500 EUR  $(30,000 / 4)$  as well as expenses related to the operation, repair, or the technical improvements of the car for the tax period of 2018.



# Tax expenditures

## Example

**A company (authorized car dealer) acquired from the vehicle manufacturer a vehicle (not yet registered in vehicle registration) in the amount of € 30,000. On 10 May 2017 the company registered the vehicle in the vehicle register and paid 33 EUR. At the same time it put the vehicle to use. The company failed to sell the vehicle by 10 May 2018 and on 30 May 2018 the company paid to the administrative authority a full administration fee (€ 217).**

**How does the situation influence the tax base of the company?**

In tax period of 2017, the company may apply to tax expenditures aliquot part attributable to tax depreciation between May and December 2017 in the amount of € 5,000  $[(30.000 / 4) \times (8/12)]$ . The company failed to sell the vehicle within one year, i.e. until 10 May 2018, and paid to the administrative authority within the statutory period of 15 days a full fee in the amount of € 217. For the company ensues the obligation to increase its tax base by the amount of tax depreciation for the tax period 2017 in the amount of 5,000 EUR.

It is also obligated to increase the tax base by the cost of fuel, technical improvements and repairs applied in tax expenditures in the tax year of 2017. In the tax period of 2018 (unless the vehicle is sold), the company can claim tax depreciation of the car in the amount of 7,500 EUR  $(30,000 / 4)$ , as well as expenses related to the operation, repair, or the technical improvements of the vehicle.

# Corporate income tax rate

(§ 15, § 52zi and § 52zj)

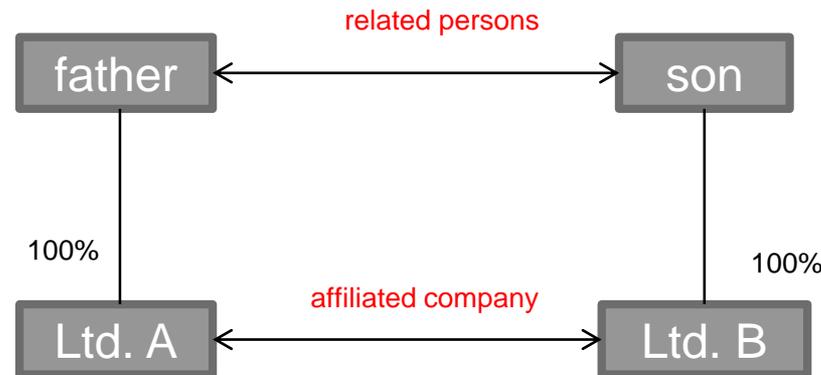
- The amendment leads to a reduction of the corporate income tax to 21%.
- The provision is first applied in the tax return for the tax period starting no sooner than **after 1 January 2017**.
- For tax period of fiscal year the rate is first applied in the tax period that **begins during 2017**.
- It is also necessary to calculate the advance payments paid in 2017 until the deadline for filing tax returns.



# Transfer pricing

## (§ 2)

- The amendment replaces the term "**mutual business relationship**" with the term "**controlled transaction**", which represents:
  - a legal relationship or a similar relationship between two or more related entities,
  - at least one of these entities is a natural person with income pursuant to § 6 of the Income Tax Act or a corporation with taxable income (profit) from assets management or activity,
  - the actual content is taken into account when assessing the controlled transaction.
- Extension of the concept of economic and personal links
  - Between related entities



# Transfer pricing

## (§ 17 art. 6)

- The approval of the corresponding adjustment of the tax base granted by the tax administration will be necessary in carrying out a primary adjustment abroad.
- A taxpayer with unlimited tax liability carries out the corresponding adjustment of the tax base, if the primary adjustment based on § 17 art. 5 of the Income Tax Act was made by the taxpayer or tax authority, i.e. the approval for the adjustment of the tax base is not required.
- If an affiliated company in the SR made the primary adjustment (increase of the tax base) according to § 17 art. 5 of the Income Tax Act and the taxpayer with unlimited tax liability makes a tax reduction, the taxpayer claiming the tax reduction is required to carry out the corresponding adjustment (reduction of the tax base for controlled transactions).
- If the taxpayer claiming the tax reduction has reduced the tax base by submitting a retrospective tax return, another affiliated entity in the SR is obligated to make adjustment (reduction of the tax base) for controlled transactions pursuant to § 17 art. 5 of the Income Tax Act.
- Obligation to notify the tax administration of such adjustments - submission shall be determined by the Financial Directorate of the SR

# Transfer pricing

(§ 18 art. 4 a 10)

- The amendment regulates the conditions under which a taxpayer can **ask the tax administration authority for approval a particular method of transfer pricing and pricing method (APA)**:
  - The application must be submitted at least **60 days** before the start of the tax period and is issued for a maximum of **five tax periods**, with potential extension for another 5 periods if there was no change in the conditions
  - The tax payer can request:
    - **unilateral** approval of the pricing method (charge EUR 10 000) or
    - **on the basis of a double taxation agreement** (fee EUR 30 000), *it is also possible to apply it to prior tax periods on the basis of an agreement between the competent authorities, the submission of a retrospective tax return would not be penalized in such a case*
- **Content of the application**: transfer pricing documentation, identification of entities, tax period, description of the controlled transaction, the estimated value of the assessed transaction and the proposed pricing method.
- **No appeal** may be made against the decision on the application of the pricing method.

# Transfer pricing

## (§ 18a)

- The amendment introduces the **possibility of doubling the penalty** (which can be imposed under the tax regulations) if:
  - the tax assessment or assessment of the tax difference has been carried out on the basis of a tax audit; and
  - the tax administration authority realized the **adjustment of the tax base of affiliated companies** (§ 17 art. 5 of the Income Tax Act) and at the same time
  - the rules against abuse have been violated (§ 50a of the Income Tax Act) or
  - these are transactions, which have **no economic justification** (§ 3 art. 6 of the Tax Code).
- The double penalty **is not applied**:
  - if the **tax payer recognizes the error** and **pays the tax difference** within the appeal period,
  - specifically, in the case where the application for the approval of the pricing method has been made and the tax administration authority started a tax audit.



# Tax license

(§ 52zk)

- The amendment will **abolish the tax license** - it will be applied for the last time to the tax return submitted for the **tax period ending on 31 December 2017**. In the case of tax period of a fiscal year it is applied to the tax period ending during 2018.
- The possibility of **accounting for positive difference between the tax license and the calculated tax**, which is indicated for tax periods ending in 2015 - 2017 and by the fiscal year for the taxation periods ending in 2015 – 2018 according to the **following valid rules**:
  - not more than three consecutive tax periods following the tax period, for which the tax license has been paid,
  - only for that part of the tax liability, which does not exceed the amount of the tax license.
- **Effective from 1 January 2018**



# Value added tax



# Introduction of legal fiction by the transfer of tax liability by the delivery of construction works

(§ 69 art. 17)

- Reaction to inconsistent assessment of the classification of construction activities according to statistical product classification (Commission Regulation No 1209/2014) and assertion of a different VAT regime for the supply of construction works by the supplier and the customer - § 69 art.12 letter j) of the VAT Act.
- If the supplier believes that supplied construction works fall under Section F of the respective classification and should be reverse charged to the recipient and at the same time the invoice created by the provider contains the exact formulation “reverse charge”, the payer, who is the recipient of the service, is deemed as **liable to pay the VAT**.
- The provision also applies to the supply of goods with installation or assembly falling under Section F of the respective classification.
- The payer, who makes a supply with transfer of the tax liability, is at the same time obligated to **report issued invoices in section A.2 of the control report**.
- **Effective from 1 January 2017**



# Interest on withholding of overpaid tax during tax audit (§ 79a)

- The amendment introduces the claim of the tax payer on compensation for withholding of overpaid tax during a tax audit in the form of **interest for withholding of overpaid tax**.
- The entitlement to interest arises the day following the expiry of six months for refunding of overpaid tax by the tax authority (30, 60 or 120 days from filing the tax return).
- **Interest rate:** twice the ECB base interest rate applicable on the first day of the calendar year, for which interest is calculated, **minimum 1.5%** of the amount of withheld overpaid tax for **each day (per annum)**.
- **Minimum amount of awarded interest:** more than 5 EUR.
- The award of the interest is automatic – the tax payer does not need to apply. The tax authority shall issue a decision on the award of the interest within 15 days of the refund of the excess amount. The interest shall be paid out within 15 days from the effective date of this decision.



# Interest on withholding of overpaid tax during tax audit

(§ 79a, § 85ke)

- If the overpaid tax is refunded to the tax payer based on a tax audit with additional increase or decrease, the tax authority shall also issue a new decision on adjusting the interest.
- Repeated serious failure of the tax payer to meet the obligations of the tax authority by a tax audit may result in loss of the entitlement to interest on the overpaid tax on the basis of a decision of the tax authorities.
- Interest on the overpaid tax can be used like a tax refund.
- **Effective from 1 January 2017.** The provision will however also apply to tax audits commenced and not completed before 1 January 2017.



# Postponing the introduction of self-taxation of imports from third countries

(§ 85I)

- The amendment postpones the date of application of self-taxation for imports of goods from third countries. The date of introduction depends on the amount of the debt of the Slovak public administration:
  - The criterion is to achieve the current amount of government debt, which is about 11 percentage points less than the specified upper limit of the government debt of the Slovak Republic for the respective calendar year.
- If this boundary was reached, for example in 2017, new rules would be introduced with the effect no sooner than 1 January 2019.
- **Self-taxation of imports - estimated amendment - § 84 of the VAT Act, as of 01 January 2017:**
  - VAT on import of goods would no longer be paid to customs authorities, but their declaration would be made in the VAT declaration submitted to the tax authorities; A part of the VAT declaration would be the right to the deduction of the tax in question, as is currently the case.
  - This amendment, however, will not apply to all importers.



# Tax regulations



# Improving effectiveness of the complaint procedure

## (§ 17)

The amendment introduces a different approach of the tax administration authority in the event of failure to comply with a request from the tax authority to remedy deficiencies in tax returns, depending on whether the deficiencies affect the amount of tax or the claim claimed:

- Deficiencies, which **do not** affect the amount of the tax or the claimed claim, can be corrected by the tax administration authority provided that all necessary data are available (e.g. SK NACE Code, tax ID, tax period, logical errors).
- In case of deficiencies, which **affect** the amount of the tax or the claimed claim, the tax administration authority shall:
  - carry out a tax audit (similar to previous rules) or
  - issue a (newly introduced) **tax levy order**, i.e. determines the tax or claim in a shortened assessment procedure.

It is specified that a tax return, which is not signed or not signed by an authorized person, or not submitted in the form valid for the respective tax period, **is considered as not filed**.

# Introduction of “shortened tax assessment procedure” (§ 68a)

- The amendment introduces shortened tax assessment procedure.
- Issuing of an assessment order in a shortened tax assessment procedure **is possible only** if the tax payer **does not rectify deficiencies** affecting the amount of tax **within the stipulated deadline and** the tax administration has not started tax audit.
- The tax payer will have the possibility to raise an objectively substantiated **objection** to the tax levy order. If the objection is not submitted, this will be regarded as the agreement of the tax payer with the tax levy (other legal remedies, excluding administrative action, are not permitted).
- A feasible decision on the tax levy can become an execution title.
- **After issuing the tax assessment order it is not possible to submit a retrospective tax return** (similarly to a tax calculated with aid).
- After tax levy by assessment order, the tax administration authority is entitled to tax audit for the respective tax period only on the initiative of the Resort of Finance SR or the Ministry of Finance SR.

# Interim injunction

(§ 50)

- Pursuant to the adopted amendment, the tax administration authority may issue an interim injunction by means of an execution title in cases, where there a reason to fear that the taxpayer:
  - fails to pay the tax or not levied tax at the time of its maturity, or the tax shall become not collectible and at the same time
  - the amount of the money will not be deposited within the time limit set by the tax authorities.
- **The provisions will be applicable, in particular, on the basis of a reasoned suspicion of serious infringements, where immediate action is necessary.**
- The tax administration authority shall inform the tax payer about the interim injunction in an appropriate way.
- The decision to impose interim injunction will be **enforceable on the date of granting of the preliminary injunction.**



# Other changes

- **Introduction of electronic communication between the financial authorities and banks** for the purposes of tax execution by transferring the claim from the bank account (§ 108 art. 9)
- The term "guaranteed electronic signature" is replaced by the term "**qualified electronic signature**"
- The antimonopoly authority of the SR will also be able to gain information about secret tax information for the purposes of state aid (§ 11).



# **Law on international aid and cooperation in tax administration**

**Implementation Act to Council Directive 2015/2376 of  
8 December 2015**

# Automatic exchange of binding opinions

(§ 2, § 8 art. 1 – 2, § 24a)

- The purpose of the amendment is to introduce systematic regular notification (in agreed intervals) about pre-established information without prior requests.
- **Within three months of the end of the calendar year** the competent institution of the SR shall notify the respective organs of the Member States and the European Commission about any information regarding issued binding opinions, which are related to cross-border business activity of a tax payer.
- The subject of the automatic information exchange in the SR will be binding opinions, which include the following:
  - **Cross-border binding statements** pursuant to § 53a - 53c of the Tax Regulations
  - **Decisions on the approval of a particular method of tax base calculation for a permanent establishment** pursuant to § 17 art. 7 of the Income Tax Act
  - **Decisions on the approval of a pricing method** pursuant to § 18 art. 4 of the Income Tax Act
- The exchange of information should take place via a newly established central register of cross-border binding opinions from the Member States from 1 January 2018.
- **Effective from 1 January 2017**

# Law on international aid and cooperation in tax administration

*„Country-By-Country Reporting“*



# Country-By-Country Reporting

(§ 22a - § 24b)

The proposed amendment imposes on international corporations the obligation to **submit to the tax administrator reports by individual countries, in which the group is active:**

- Comprehensive information on income, before-tax profit or loss, income tax, registered share capital, retained earnings, number of employees, tangible and intangible assets and
- A list of individual constituent entities their state of residence (if it differs from the state of tax residence) and the character of their main economic activity.

## **Obligatory subjects:**

- **Ultimate parent entity** – tax resident of the SR, member of international group of companies, whose consolidated income is at least EUR 750 million for the period of one financial year; or
- **Constituent entity** – which is not the ultimate parent entity, after fulfilling conditions (v § 22c); or
- **Surrogate parent entity** after fulfilling conditions (v § 22d).



# Country-By-Country Reporting

(§ 22a - § 24b)

- **Exemption from the obligation:** ultimate parent company, which is not a tax resident in an EU Member State or in a contractual state
- **Interval:** annually for each state, in which the multinational enterprise group is active
- **Tax administration authority:** Financial Directorate of the SR
- **Deadline:** within 12 months after the last day of the financial year to be reported
- **Submission:** electronically, the template of formalized reports will be published on the web page of the Financial Directorate of the SR
- Obligation of all taxpayers to **submit the report** on the "status" **to the Financial directorate of the SR** for legal purposes i.e. whether it is regarding the ultimate parent company, constituent entity of the surrogate parent entity within the deadline for filing tax returns. The template is defined by the Financial Directorate of the SR
- **Penalties:**
  - For non-compliance with the reporting obligation 3 000 EUR
  - For failure to submit country-by-country report 10 000 EUR
- **Effective from 1 March 2017**



# Social insurance



# Changes in the Social Insurance Act (No. 461/2003 Coll.)

## Increase of the maximum assessment base of employees, employers, small traders and other self-employed persons (§ 138 art. 6,7 and 9)

- The amendment increases maximum assessment base for social insurance contributions to **7-times the average monthly wage** in the national economy (EUR 6,181), which is 2 years prior to the calendar year, for which the social security contributions are paid.

## Increase in the maximum amount of the sickness benefit (§ 55 art. 2)

- Maximum total amount of the daily assessment bases for determining the amount of sickness benefit increases to EUR 58,0603 (only for insured persons with a gross income over EUR 1287):
  - Maximum sickness benefit - 990 EUR/month (31 days per month), 958 EUR/month (30 days per month),
  - Maximum maternity benefit – 1,260 EUR/month (31 days per month), 1,119.30 EUR/month (30 days per month),
  - Maximum nursing benefit – 319.40 EUR for 10 days.
- **Effective from 1 January 2017**



# Health insurance



# Changes in the Health Insurance Act (No. 580/2004 Coll.)

## **Abolition of the maximum assessment base of employees, employers, small traders and other self-employed persons (§ 138 art. 6,7 and 9)**

- The amendment abolishes the maximum assessment base for health insurance contributions to the unlimited ceiling. This is applied also in case of the annual reconciliation and in the calculation of advances.
  
- **Effective from 1 January 2017**



# Summary of effects

## Examples

**High value employee with monthly gross income of 6.000 EUR**

**What is the effect from the changes in the social and health insurance contributions.**

**And what about the alternatives of self-employment and an own company?**



# Summary of effects

2016	Yearly net income	Costs
Employee	51.130	89.583
Self-employed	58.367	90.000
Limited Liability company	63.278	90.000

2017	Yearly net income	Costs
Employee	48.865	97.344
Self-employed	57.183	97.300
Limited Liability company	71.485	97.300

2017	Yearly net income	Costs
Employee	45.358	90.000
Self-employed	53.995	90.000
Limited Liability company	66.123	90.000



# Non-life insurance tax



# Taxation of a part of insurance contributions from non-life insurance sector (§ 68a)

- Part of the proposed amendment to Act No. 39/2015 Coll. On Insurance (Insurance Act)
- **Subjects:** insurance companies, insurance companies from other Member states and branches of foreign insurance companies
- **Taxation:** 8% of the insurance contributions received from defined types of non-life insurance
- **Types of non-life insurance:** defined in points 1 - 9 and 10 (b) – 18 of Annex 1 of the Insurance Act (i.e. except contractual compulsory insurance)
- **Effectiveness:** new contracts concluded as at 1 January 2017
- **Interval:** taxation of insurance benefits received for **January to November** in the period **until the end of the calendar year** and for **December to the end of January** of the following year
- **Responsible tax authority:** Tax office for selected tax payers



# Taxation of a part of insurance contributions from non-life insurance sector

- **Account:** Special tax revenue account of the tax authority for selected tax payers (income of the state budget)
- **Related duties:**
  - Inform the tax authority for selected tax payers **at latest within three working days** after the taxation
  - In the same period of time, **present data** confirming items that are being included in the calculation of the base for insurance contributions



# **Special levy on enterprising in regulated industries**



# Special levy on enterprising in regulated industries

(§ 3 art. 1 – 2, § 4 art. 1, 2 and 7)

- The Amendment to Act No 235/2012 Coll. on special levy on enterprising in regulated industries will **take effect on 31 December 2016**.
- The condition that the income of a regulated company from a regulated activity for the accounting period, during which it has been authorized to perform this activity, must be at least 50% of the total profit reported for this accounting period **is replaced by the condition** that the activity, for which the regulated company has been authorized, will be performed for **at least one whole tax period**.
- The **tax duty** of the regulated company **is derived from the economic result or the expected economic result** (instead of the tax base) **of at least EUR 3 million**.
- The amendment aims to adjust the calculation of the tax base in such a way that the levy is paid only from those activities, which belong to regulated industries.



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## Change of the special tax rate (§ 6, § 14)

- Increase of the rate to **0.00726** with effect from 1 January 2017
  - is applied for the first time in the tax period beginning after 31 December 2016
- Reduction of the rate to **0.005445** with effect from 1 January 2019
  - is applied for the first time in the tax period beginning after 31 December 2018
- Reduction of the rate to **0.00363** with effect from 1 January 2021
  - is applied for the first time in the tax period beginning after 31 December 2020

## Notification requirement

The regulated entity shall submit to the tax authorities, within the period for the submission of financial statements, a notification for tax calculations including:

- economic results,
  - the coefficient for the calculation of the tax base,
  - tax base,
  - the amount of tax paid.
- The template of formalized notifications shall be provided by the Financial directorate of the SR.



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## Changes in the calculation of the levy (§ 7)

- The levy is calculated as the product of the tax rate and the tax base.
- The **tax base** consists of the **pre-tax profit** or the **pre-tax profit under IFRS**, which is reported for the respective tax period, multiplied by the coefficient.
- The **coefficient** is calculated as the **share of the income from the regulated activity and the total income** in the accounting period, for which the reported economic result was used for the calculation of the tax base.
- The coefficient is **rounded down to two decimal places**.

$$\text{Levy} = \text{ER}_{(r.100\text{TR})} \times \text{coefficient}_{(\text{income from reg. activity}/\text{total income})} \times 0.00726$$

# **Special levy rate for selected financial institutions**



# Adjustment of the special levy rate

(§ 3 art. 2, § 11 and § 12)

- The amendment of Act No 384/2011 Coll. on the special taxation of selected financial institutions in the wording of the subsequent provisions resulted in **waiving the gradual decrease of the levy rate** in relation to total of paid contributions and the level of the indicator, which represents the share of paid contributions to the total assets of the banking sector in the SR.
- In this context, the cancellation of the provision of the Ministry of finance of the SR No. 253/2014 Coll. on the fulfillment of the condition for the special tax rate of selected financial institutions also took place.
- The tax rate for the years 2017-2020 has been fixed at **0.2% per annum** of the tax base for the calculation of the levy.
- **Effective from 24 October 2016**





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# Questions & feedback



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