



# Tax and Investment Facts

A Glimpse at Taxation and Investment in Slovakia

2022

## MANDAT CONSULTING, k.s. Slovakia

MANDAT CONSULTING, k.s. is an advisory company established in 2004, which provides companies active in Slovakia with services in the field of tax consultancy, payroll processing, accounting and other specific advisory services. Long-standing partnerships with foreign advisory companies coupled with the competence of Slovakian tax advisers and auditors enable us to provide our services to clients based abroad.

Our tax advisory includes preparing and compiling tax returns, ordinary and extraordinary year-end closes for tax optimisation and general tax advisory purposes, and notifying clients about all tax matters. Tax advisory also includes the planning of proper legal forms of business with respect to the needs and requirements of our clients.

Our staff are well experienced in tax due diligences and advisory services in a range of international taxes and transfer pricing as well.

We run our own payroll department for payroll services. Our payroll department personnel offer you:

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- » processing of payrolls on a monthly basis
- » settling of any payroll formalities
- » representation at state offices in event of payroll audits
- » preparation and implementation of payments linked to payrolls (payroll tax, contributions to social or health security system, net salaries)
- » preparation of year-end payroll tax returns
- » general payroll advisory
- » specific audit of payroll agenda
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We offer advisory services to our clients in the field of custom duties, foreign exchange controls, EU market regulations, EU subsidies and funding, etc. as well.

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## Table of Contents

<b>1. Ways of Doing Business / Legal Forms of Companies</b>	<b>4</b>
<b>2. Corporate Taxation</b>	<b>11</b>
<b>3. Double Taxation Agreements</b>	<b>17</b>
<b>4. Transfer Pricing</b>	<b>18</b>
<b>5. Anti-Avoidance Measures</b>	<b>19</b>
<b>6. Taxation of Individuals / Social Security Contributions</b>	<b>20</b>
<b>7. Indirect Taxes</b>	<b>23</b>
<b>8. Inheritance and Gift Tax</b>	<b>25</b>
<b>9. Wealth Tax</b>	<b>25</b>
<b>10. Other Taxes / Reporting Obligation</b>	<b>25</b>

## 1. Ways of Doing Business / Legal Forms of Companies

Generally, foreigners may conduct business in Slovakia under the same conditions and to the same extent as Slovaks. Business activities conducted by foreign companies in Slovakia are usually carried out through a Slovak subsidiary, or through an enterprise or branch office of a foreign person located in Slovakia.

The Slovak Commercial Code and other specific laws provide a variety of options for structuring business entities in the Slovak Republic.

### Principal forms of business

A business company in Slovakia is a legal entity formed for the purpose of carrying out business activity.

The Slovak Commercial Code recognises the following basic forms of legal entities, all of which must be registered in the Commercial Register:

- limited liability company (s.r.o.)
- joint-stock company (a.s.)
- simple joint-stock company (j.s.a.)
- unlimited partnership (v.o.s.)
- limited partnership (k.s.)
- co-operatives (družstvo)
- enterprise or branch office of a foreign company (o.z.)

### Limited liability company (s.r.o.)

This is a very popular legal form for small and medium-sized businesses in Slovakia. The company may be formed by one person or more (individuals, entities) but the maximum number of shareholders is 50.

The company exists independently of its members. The company is liable with its total assets for any breaches of its obligations. The liability of a shareholder for the obligations of the company is limited to the amount of the unpaid shareholder's contribution registered in the Commercial Register.

The name must include "spoločnosť s ručením obmedzeným" or "spol. s r.o." or "s.r.o."

A list of members, the amount of each member's investment contribution and the names of the supervisory board members must be registered in the Commercial Register.

The registered capital must be no less than EUR 5,000. Each member must contribute at least EUR 750. The registered capital is not divided into shares, but the amount to be invested by each member is set out in the articles of association.

If the company is formed by one person, it may be entered in the Commercial Register only when its registered capital has been fully paid up. One or more executive officers represent the company's statutory body. If there is more than one executive officer, each of them may act independently, unless the deed of association or the statutes provide otherwise.

A statutory representative of the company may only be an individual person who has reached the age of 18, is legally competent, and of unimpeachable character, and if there is no impediment to their carrying out a trade.

The company must create a reserve fund at the time and at the amount specified in the memorandum of association. Unless the reserve fund is established upon the company's establishment, the company must create such a fund from the first reported net profits by transferring a minimum of 5% of the net profits to the reserve, subject to a maximum of 10% of the registered capital. The reserve fund must be replenished annually by transferring at least 5% of the net profits for the respective financial year, until it reaches the amount set out in the memorandum of association of the company, which has to be at least 10% of the company's registered capital.

The supreme body is the general meeting which shall be convened by the company's executive officers at least once a year. The general meeting which approves ordinary financial statements must be convened no later than 6 months after the last day of the accounting period.

Income is subject to corporate income tax. It is not taxed directly with individuals.

### Joint-stock company (a.s.)

A joint-stock company is a company whose registered capital is divided into a certain number of shares with a specific nominal value. A company is liable with its entire property for any breaches of its obligations. A shareholder is not liable for the company's obligations.

The commercial name must include the designation "akciová spoločnosť" or "akc.spol." or "a.s.".

A joint-stock company may be founded by a single person if such person is a legal entity, otherwise by 2 or more people. The registered capital of the company must be at least EUR 25,000.

A share may be made out as a registered share or as a bearer share, or a share may be issued as a certified share (i.e. shares in a physical form) or uncertified share (i.e. book-entry shares). The statutes may restrict but not exclude the transferability of registered shares. The transferability of bearer shares is unrestricted.

Joint-stock companies must create a reserve fund at the time of incorporation with a minimum amount of 10% of the registered capital. This reserve fund has to be replenished each year with an amount specified in the articles of association, but a minimum of 10% of the net reported profits, until such time as it reaches the amount specified in the articles of association (which must be at least 20% of the company's registered capital). The reserve fund may only be used to cover the company's losses and is not readily distributable to shareholders.

The company must establish a Supervisory Board and Board of Directors. The Board of Directors represents the company's statutory body. The Board of Directors is a collective statutory body (a minimum of 3 members) deciding all company matters. Unless the statutes provide otherwise, any member of the Board of Directors may act in the name of the company.

Annual financial statements must be published and audited by a registered auditor.

### Simple joint-stock company (j.s.a.)

The amended Commercial Code introduced a new company form in Slovakia in 2017. This is aimed at satisfying the needs of start-ups by offering a simpler and more flexible form of joint-stock company, with features such as:

- low capital requirement, starting from EUR 1
- no supervisory board is required and the management board can be a one-person board, meaning that only one person is needed to form the mandatory bodies of the company
- can be established by one or more persons
- option to issue specific classes of shares
- option to limit or exclude the transferability of shares

### Unlimited partnership (v.o.s.)

An unlimited partnership is an entity formed by 2 or more people under a common commercial name and bears joint and several liability for the obligations with all its property. Only individuals may be partners.

The commercial name must include the designation "verejná obchodná spoločnosť" or "v.o.s.".

The statutory body is formed by all its partners, unless the partnership agreement regulates the statutory body differently.

Income is not subject to corporate income tax, it is taxed at the partners.

There is no legal requirement for an audit of the accounts.

### Limited partnership (k.s.)

A company similar to a general commercial partnership in which one or more partners are liable for the partnership's obligations up to the amount of the unpaid parts of their contributions, i.e. limited partner ("komanditista") and one or more partners are liable for the partnership's debt with all their property, i.e. general partner ("komplementár").

The name must include the designation "komanditná spoločnosť" or "k.s.".

Income attributable to the limited partners is subject to corporate income tax, income attributable to the general partners is taxed at those partners.

A limited partner has to make a capital contribution to the partnership in the amount specified in the memorandum of association, but a minimum of EUR 250. The contribution must be paid by the date specified in the memorandum of association, or without undue delay after the incorporation of the company.

There is no stipulated minimum capital for general partners.

The statutory body of a limited partnership is its general partners, each of whom is entitled to act on behalf of the company individually, unless the memorandum of association specifies otherwise.

Only general partners are authorised to participate in the management of the company's business.

No audit is required.

### Co-operative (družstvo)

A co-operative is formed by at least 5 members who are natural persons. However, it is perfectly acceptable for at least 2 legal entities to form a co-operative.

The purpose of a co-operative is to undertake business activities or to ensure the economic and social or other benefit of its members.

The co-operative is fully liable for its liabilities. Members do not, however, guarantee the obligations of the co-operative.

The co-operative must include the designation "družstvo" in its business name.

The co-operative must have registered capital of at least EUR 1,250. To join the co-operative, new members may be required to make a capital contribution in accordance with the requirements of the articles of association. The outstanding amount of a member's contribution must be paid within 3 years, unless the articles of association provide otherwise.

A co-operative is established at a Members' Meeting which determines the amount of the registered basic capital, approves the articles of association and appoints the members of the Board of Directors (the statutory body of the co-operative) and the Supervisory Board.

The supreme body of a co-operative is the Members' Meeting. When the co-operative has fewer than 50 members, the articles of association may allow the powers of the Board of Directors and the Supervisory Board to be vested in the Meeting of the Co-operative's Members.

A non-distributable fund of at least 10% of the co-operative's registered capital must be established at its incorporation. This fund may not be distributed to the members while the co-operative exists. The fund must be replenished annually with at least 10% of the net profits each year until the balance of the fund reaches 50% of the co-operative's registered basic capital. The fund is there to cover any losses which may arise in subsequent periods.

Income is subject to corporate income tax. Income and expenses are split between the partners.

### Enterprise or a branch office of a foreign entity

While Slovak law does not limit the activities of enterprises or branch offices of foreign entities, it does require that enterprises or branch offices hold a trade licence or other authorisation and provide a full list of their application for entry into the Commercial Register. Only then may they engage in the activities registered in the Commercial Register.

The branch is subject to corporate income tax on its Slovakian income. Depending on the nature of the branch activities, taxable income may be calculated based on net profit or a deemed profit may be used based on prior arrangement with the tax authorities.

Foreign entities establishing an enterprise or a branch must appoint a director (manager) to head the enterprise or branch office and register him/her in the Commercial Register. The nominated branch office manager can be either a Slovak national or an expatriate, who, where appropriate, should have a valid temporary Slovak residence permit.

There are no minimum capital requirements, nor is an audit required.

## 2. Corporate Taxation

### 2.1. Applicable Taxes / Tax Rates

The income tax rate applicable for companies is 15% or 21% based on the yearly income achieved.

### 2.2. Resident Companies

Corporate income tax is levied on the worldwide income of Slovak legal entities (those having their registered office or place of effective management in the Slovak Republic).

#### 2.2.1. Computation of Taxable Income

Corporate tax and the tax base are calculated on the basis of statutory accounting profit/loss (operating result determined pursuant to the Act on Accounting or IFRS result), adjusted by certain non-deductible items.

Non-deductible items include, for example: entertainment costs, travel allowances above the statutory limits, all penalties and fines, taxes paid on behalf of other taxpayers, etc. There are special rules determining which provisions or adjustments to receivables can be treated as tax-deductible expenses (for example, provisions for unused holiday).

Income that is exempt from tax includes several types of income, for example, income derived from grants and subsidies provided on the basis of international treaties.

Income that is not subject to the Act on Income Tax includes, for example, income received from the assignment of income tax, income derived from gifts or inheritances.

### 2.2.2. Taxation of Dividends

According to the Slovak Act on Income Tax, dividends paid to/received from companies that are resident for tax purposes in Slovakia or in another contractual state are not subject to income tax, with the exemption of companies from non-contractual states. In the case of companies from non-contractual states, a tax rate of 35% is applicable.

Since 2017, dividends paid to individuals are regarded as taxable income. The applicable tax rate is 7% or 35% depending on the state from which/into which the dividends are paid.

### 2.2.3. Capital Gains and Losses (Including Capital Gains and Losses from Sales of Shares)

There is no special tax regime for the taxation of capital gains. In general, capital income is taxable and the acquisition value of most types of assets is treated as a tax-deductible cost. In the case of share sales under specific conditions, the incurred loss is not tax deductible.

### 2.2.4. Depreciation / Capital Allowances

The costs of long-term tangible and intangible assets with useful lives over one year (fixed assets) are included in the tax base gradually through tax depreciation.

Since 1 January 2020 there have been 7 depreciation groups. For all depreciation groups a straight-line method is applicable. An accelerated method of depreciation is permitted only for assets belonging to the 2<sup>nd</sup> and 3<sup>rd</sup> depreciation group.

There is also the possibility of component depreciation, e.g. equipment which is part of buildings (e.g. computer networks, elevators and lifts, air conditioning); components can be depreciated over a shorter period (6 years, 12 years) than the given building (20, 40 years).

Land cannot be depreciated.

### 2.2.5. Loss Carry Over (Including Potential Loss of Tax Loss Carry Forward in Case of Restructuring)

Tax losses arisen from 1 January 2020 may be carried forward unevenly for a maximum of 5 years following the year in which the loss was incurred (that means starting in 2021) and simultaneously the tax loss can be utilised up to a maximum of 50% of the corporate income tax base in one year.

If the company is dissolved without liquidation, the tax loss can be deducted by the legal successor/s.

The legal successor may deduct the tax loss if the dissolved legal entity and its legal successor are corporate income tax payers and, concurrently, the legal entity is not dissolved solely with the aim of reducing or evading its tax liability.

The right to deduct tax losses expires from the date the taxpayer is registered for liquidation or bankruptcy.

### 2.2.6. Group Taxation

Group taxation is not possible in Slovakia.

### 2.2.7. Relief from Double Taxation (Tax Credit / Tax Exemption)

To avoid double taxation, one of the 2 methods (tax credit or tax exemption) according to the given international tax treaty can be used.

For some types of income (e.g. income from employment) the national law (Slovak Act on Income Tax) enables use of the tax exemption method (independently of the method mentioned in the international tax treaty for the given type of income) if this procedure is more convenient for the taxpayer.

## 2.2.8. Incentives

### → Tax relief for investment aid beneficiaries

- » Tax relief up to the amount of the tax representing a prorated part of the tax base. The prorated part of the tax base is calculated by multiplying the tax base by a coefficient (2 coefficients are possible).
- » Many other conditions have to be met.
- » Can be applied for 10 consecutive tax periods.

### → R&D cost deduction

### → Tax relief for incentive beneficiaries

- » Tax relief up to the amount of costs reported in the financial statements, paid from its own funds and up to the amount of the tax representing a prorated part of the tax base. The prorated part of the tax base is calculated by multiplying the tax base with a coefficient.
- » Many other conditions have to be met.
- » Can be applied for 3 consecutive tax periods.

## 2.3. Non-Resident Companies

Non-resident taxpayers with a limited tax liability in the Slovak Republic are taxed on incomes earned within the Slovak Republic only.

## 2.3.1. Concept of Permanent Establishment / Doing Business

A permanent establishment of a foreign company located in Slovakia is treated as an independent Slovak-resident entity. A permanent establishment can either be a branch registered in the Commercial Register or an unregistered unit.

## 2.3.2. Withholding Taxes

For withholding tax on payments to domestic and foreign corporate entities, a tax rate of 19% or 35% (for non-contractual countries) applies.

The zero rate applies if conditions for applying the EU Interest and Royalties Directive or EU Parent-Subsidiary Directive are met.

Reduced rates or zero rates on income from source in Slovakia can be applied under the terms of a double tax treaty.

## 2.3.3. Capital Gains

There is no special tax regime for taxation of capital gains. In general, capital income is taxable and the acquisition value of most types of assets is treated as a tax-deductible cost. In the case of share sales under specific conditions, the incurred loss is not tax deductible.

A tax-resident company or company with its permanent establishment in Slovakia may benefit from the share deal exemption if the specific pre-conditions defined by law are fulfilled.



### 3. Double Taxation Agreements

There are 70 valid double taxation treaties which the Slovak Republic has signed.

Any international treaties, which were approved, ratified, and promulgated in the manner prescribed by Slovak law, or agreements concluded or approved by the Government of the Slovak Republic and which govern taxation and associated legal relations in respect of non-autonomous territories which act independently in international relations shall prevail over the Act on Income Tax.

#### 2.4. Tax Compliance

The taxation period for corporate income tax is generally a calendar year or a business year (any period of 12 consecutive calendar months not identical with a calendar year).

The deadline for filing the income tax return is the last day of the 3<sup>rd</sup> month following the end of the tax period. This deadline can be also extended by another 3/6 months.

The deadline for paying the tax liability is the same.

If the calculated income tax is higher than EUR 5,000 or EUR 16,600 the company is obliged to pay tax advances for the next tax period (on a monthly or quarterly basis).

## 4. Transfer Pricing

The Slovak rules for transfer pricing (governed by the Income Tax Act) are in line with the most up-to-date OECD Transfer Pricing Guidelines. This means the arm's length principle applies. As from January 2015, transfer pricing documentation in line with the OECD Code of Conduct is also obligatory for transactions among domestic related entities (not only with foreign entities).

If requested by the tax authority during a tax audit, documentation must be submitted within 15 days. 3 types of transfer pricing documentation are defined, depending on the size of the company and some other criteria (simplified, basic, full-scope documentation).

## 5. Anti-Avoidance Measures

### 5.1. General Anti-Avoidance Rule

There is a general anti-avoidance rule in the Income Tax Act.

### 5.2. Thin Capitalisation Rules

Thin capitalisation rules have been in force since 1 January 2015. New rules disallow interest and other financing charges on any debt funding between related parties in excess of 25% of adjusted earnings before interest, taxes, depreciation and amortisation (EBITDA).

### 5.3. Controlled Foreign Company Provisions

The Slovak Republic has had CFC Rules in the Income Tax Act since 1 January 2019. CFC Rules for individuals were also recently adopted.

## 6. Taxation of Individuals / Social Security Contributions

All individuals with permanent residency in the Slovak Republic (or a Slovak permanent residency permit) are deemed to be Slovak residents for tax purposes. Tax residents are taxable in the Slovak Republic on their worldwide income.

Slovak tax non-residents are taxed solely on their Slovak income.

Each person (individual) is treated as a separate taxpayer (no family unit).

### 6.1. Residency Rules

An individual is considered a tax resident if his permanent residency or habitual abode is in the Slovak Republic. An individual has his habitual abode in Slovakia if he spends 183 days or more, either continuously or periodically, in the Slovak Republic in a calendar year; except for students, persons under medical therapy, frontier workers.

### 6.2. Income Liable to Tax

There are 4 groups (types) of taxable income:

- income from dependent activity (employment income)
- income from business, from other gainful activity, rental income, from the use of work and artistic performance
- income derived from capital
- miscellaneous income

### 6.3. Allowable Deductions

**For year 2021:**

- basic personal allowance: EUR 4,511.43 / year. The claimed amount of this non-taxable sum depends on the level of taxable income from employment and/or business
- dependent-spouse allowance (subject to conditions)
- voluntary contributions of a taxpayer to supplementary pension savings schemes (subject to conditions)
- spa-care allowance
- tax bonus for child

### 6.4. Tax Rates

Progressive taxation of individuals at 2 tax rates:

- 19% for a tax base up to EUR 37,981.94
- 25% for a tax base in excess of EUR 37,981.94

Also, a withholding tax of 19% is charged on various types of income; e.g. on interest on bank deposits.

### 6.5. Tax Compliance

The taxation period for individuals is the calendar year.

## 6.6. Social Security Contributions

Contributions to social insurance and contributions to health insurance are paid separately.

In the case of employment income, the contributions are as follows:

- social security contribution: 34.6% of gross salary (employee 9.4%, employer 25.2%)
- health insurance contribution: 14% of gross salary (employee 4%, employer 10%)

Self-employed taxpayers must pay contributions from a specific assessment base. The rates are as follows:

- social security contribution: 33.15%
- health insurance contribution: 14%

## 7. Indirect Taxes

- Value added tax (VAT)
- Excise duties – on mineral oil, tobacco products, spirits, electricity, coal, natural gas, beer
- Motor vehicle tax
- Municipal taxes (including real estate tax)

### 7.1. Value Added Tax / Goods and Services Tax

Value added tax, regulated by the European Union, is charged on the supply of goods and services where the place of supply is in the Slovak Republic, on the acquisition of goods from another Member State (intra-Community acquisition of goods), on the receipt of selected reverse charge services from other EU Member States or third countries, and on goods imported from non-EU countries.

The standard VAT rate is 20%. There is also a reduced rate of 10% which applies for example to certain pharmaceuticals, accommodation, books and periodicals and food.

The standard tax period is a calendar month. VAT returns can also be filed on a quarterly basis (subject to conditions).

VAT returns should be submitted within 25 days of the end of the tax period; the same term applies for the payment of tax due. The taxpayer is also obliged to file a Control Statement, which contains details of invoices issued and received, also in the relevant VAT return.

VAT grouping is possible in Slovakia.

Foreign taxpayers may claim for a refund of Slovakian VAT (invoiced by Slovak suppliers to them) if certain conditions are fulfilled.

## 7.2. Transfer Taxes

There are no transfer taxes in Slovakia.

## 7.3. Others

Goods imported into the Slovak Republic from third countries are subject to a customs procedure. EORI registration is obligatory for the customs procedure.

Motor vehicle tax is charged on all vehicles that are registered in the Slovak Republic and are used for business purposes.

Real estate tax is a local tax charged on land, buildings and flats (apartments).

## 8. Inheritance and Gift Tax

There is no inheritance and gift tax in Slovakia.

## 9. Wealth Tax

There is no wealth tax in Slovakia.

## 10. Other Taxes / Reporting Obligation

Every taxpayer who must submit the DAC4 or DAC6 report will be obliged to fulfil these obligations by the prescribed deadline.

The DAC4 report shall be submitted within 12 months of the end of the respective financial year of the group.

The DAC6 report shall be submitted within 30 days of the first reportable event, where a reportable event shall occur when the tax arrangement is provided for implementation, when the user is ready for implementation, or when an involved taxpayer has taken the first step to implement the tax arrangement.

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