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SIMPLIFYING ADMINISTRATION

FINACONT TAX NEWSLETTER

Business in Slovakia 2019

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In recent years many Hungarian businesses have outsourced their activities or a part of their activities to Slovakia. Accessing new markets, business-friendly environment and tax benefits all play an important role in the decision.

Company foundation

Basically, the same types of company forms exist in Slovakia as in Hungary and all companies are also subject to company court registration. Yet, despite the fact that the requirements and the process of founding a Slovak company have many similarities with the establishment of a Hungarian company, **it has many advantages.**

For example, in Slovakia, a limited liability company's **compulsory registered capital is lower than in Hungary**, it is minimum EUR 5,000, **only half of the compulsory registered capital required from an ltd in Hungary.** One owner statement is sufficient to prove the availability of the registered capital.

Similar to Hungarian legislation, the Slovak legislation also allows founding a one-person ltd.

A license is necessary and required for operating a Slovak company. After the company is registered at the company court, it must be "registered" at the tax authorities as well under corporate tax, Slovak VAT (DPH) payment, and, if necessary, personal income tax. From 1 January 2018 electronic communication with tax authorities is a must for all legal entities registered at the company court. VAT-registered taxpayers have been communicating only in electronic way with the tax authorities for years now.

Tax environment

The Slovak tax system is clear and fully reflects Community legislation.

<u>Corporate tax</u>

Corporate tax base assessment should be based on the profit & loss calculated as per accounting rules in Slovakia. **The corporate tax is 21%.** It is good news for taxpayers that **minimum tax has been deleted** as of January 1, 2018, and the **tax on dividend paid to individuals is only 7%** which is not subject to the liability of healthcare contribution existing in Hungarian legislation. There is **no tax liability** on dividend paid to Slovak tax resident legal entities. In Hungary, however, 15% personal income tax is paid on dividend paid to an individual from the profit after tax assessed with a 9% corporate tax rate, furthermore, 14% healthcare contribution may also be charged taking the limit of HUF 450,000 into account.

Tax credit on corporate tax might be applied to **investments and developments** in Slovakia if certain requirements are met. Tourism and small and medium-sized enterprises are strongly supported by the government in Slovakia as well.

The term of **foreign controlled company is not defined** in the Slovak corporate tax law.

Value added tax

The Slovak Act on VAT - similarly to Hungarian regulation - covers and regulates the domestic supply of goods, the provision of services, the intra-community purchase of goods and the import of goods by entities performing economic activities. The **general rate of VAT** in Slovakia is more favorable than in Hungary, **20 percent**, the reduced tax rate is 10 percent (e.g. books, medicines, etc.). The rules of exercising the right of tax deduction and tax exemption are the same as the ones in Hungary. It is important to note that there is an annex to the Slovak VAT return called the "Verification Statement", which contains itemized statements of the data included in the return for both inbound and outbound invoices. The "Verification Statement" must be submitted at the same time as the tax return.

It is **a great advantage**, however, that the Slovak VAT Act **does not prohibit the deductibility of input VAT** charged on **car or motor gas purchases**.

In Slovakia VAT number and EU tax number requests are processed in the same registration procedure. VAT registration can be requested without reaching the value limit. **As for invoices**, **the regulation is not as strict** as in Hungary. A receipt issued by an **online cash register** on a cash purchase is considered to be an invoice and entitles you to tax deduction. Although online cash registers exist in Slovakia as well, the scope of taxpayers required to use cash register is not so wide.

Compared to this, **in Hungary, the scope of taxpayers who are obliged to use the online cash register is constantly expanding**. The primary purpose of introducing online cash registers was to send information online to the tax authorities, but rules guaranteeing the fullness of the data were even more important.

Slovak taxpayers **should not yet expect a complex system** which tracks the shipment of goods, **similar to the EKAER system, to be introduced**. In Hungary the use of the system still imposes significant administrative burdens on Hungarian businesses concerned, as transport data (description/name of goods, quantity, destination, sender's data, license plate number of carrier vehicle, etc.) should be recorded in a central electronic system prior to shipment.

Payroll taxes

In Slovakia the main source of state benefits is contribution paid by employers, while the burden on employees is decreased. In Hungary **the rate of personal contribution** is 18.5 percent, while in Slovakia this rate is **only 13,4**

percent. Thus, **the amount of net salary remaining in the hands of employees is higher** than that of a Hungarian employee, but the payroll taxes of employers in Slovakia is 35,2% which is significantly higher than the Hungarian employers' payroll tax liabilities.

What is interesting about personal income tax is that the income can be reduced by the above-mentioned amount of employee contributions (13.4%) and the income tax shall be established on the basis of the amount thus reduced. By default, the tax rate is 19 percent of the tax base calculated as described above, but there is also a 0% tax rate up to the amount of the Slovak subsistence minimum figure, similar to the Hungarian practice before 2012. This tax-exemption option can be used at relatively high incomes. However, as of January 1, 2013, a higher rate of 25 percent has been introduced to be applied to annual incomes exceeding EUR 36,000.

Similar to Hungary, the Slovakian tax system also supports families with children with a monthly amount of EUR 22,17, and the Slovak minimum wage (EUR 520 / month) is approximately the same as the Hungarian minimum wage.

Business tax

The business tax base of a Hungarian company – in contrast to corporate tax – cannot be reduced, for example, with recharging the costs of the foreign parent company to the Hungarian permanent establishment, furthermore, conventions on the avoidance of double taxation do not apply to this tax type either. Consequently, the current maximum 2% of business tax in Hungary seriously undermines Hungary's chances in the international competition, also against Slovakia as **there is no business tax in Slovakia**.

The Slovak tax environment is much more transparent and simpler than the Hungarian tax system and administrative burdens on taxation are much lighter. Of course, a number of other factors should be considered when a business settles down abroad.

Finacont Slovakia s.r.o. renders full-scale, high-quality administrative services to businesses and organizations in Slovakia and abroad. Should you require more information on Slovak company founding and tax planning, please contact our colleagues.

Should you have any questions, please do not hesitate to contact us.

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