



AUDITOR

Audit ■ Tax ■ Accounting

Information for clients No. 3

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Dear clients!

It will soon be the year 2018 and AUDITOR will celebrate 27 years of operation in the Czech market and 19 years of operation in the Slovak market. The end of the year is usually the right time for a brief summary of the past year.

Last year, Slovakia was characterised by a strong economic growth which we also experienced significantly in our office. Due to the increased number of our existing clients, but also due to winning new clients, we had to increase the number of our employees. Finding the right co-workers is a difficult task which will keep us occupied in the new year too.

In addition to our usual scope of business, payroll accounting, financial accounting, the preparation of financial statements and tax consultancy, we experienced the growth particularly in the area of mergers and acquisitions, the conduct of Due Diligence Reviews, international tax planning, and the elaboration of transfer pricing studies. More and more often, we are providing assistance to Slovak companies in becoming internationally active; in many cases, we are an ideal partner for them thanks to our sister companies in the Czech Republic and Austria, as well as our UHY International network.

The requirements for our profession are not lowering; on the contrary, we had to cope with many changes,

such as the establishment of electronic mailboxes, changes in dividend taxation, an increasing number of reporting obligations and tax audits. Even in the future, we can expect new tasks, for example, in the area of tax harmonization, the struggle against tax dumping and others. Thanks to the intensive training conducted for our employees internally, externally and also abroad, we are well-prepared for these new challenges.

This has been another year we abandoned the idea of sending Christmas cards and gifts and financially supported two non-profit organisations instead.

At the end of the year, we would like to thank all our employees for their work, willingness to constantly learn, and creating a collegial atmosphere. But our thanks go particularly to you, our clients, to whom we steadily assist in conducting their business in Slovakia for almost two decades.

We wish you all a Merry and Peaceful Christmas and lots of strength to face the challenges awaiting us in 2018.

Yours



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Christmas Wishes & Tax and Contribution News in 2018

VAT

- **The obligation to pay a security deposit on tax for VAT registration is also extended** by cases where the applicant is a person who has tax arrears of EUR 1,000 or more at the filing date of the application or whose VAT registration has already been cancelled in the past, for example, due to a repeated breach of administrative obligations, a repeated failure to pay tax, or a repeated breach of tax audit obligations.

- The Law Amendment introduces the possibility of a **tax representation for a foreign person upon the acquisition of goods from another Member State which is intended for subsequent delivery to another Member State or a third country**. If a foreign person chooses a tax representative, such person will not be required to apply for VAT registration.

- **The conditions for the use of triangular trade** under the current law includes a condition that the first customer shall not be registered for VAT in the Member State of the second customer. With effect from 1 January 2018, this condition is aligned with the requirements of Council Directive 2006/112/EC on the Common System of VAT and is worded in such a way that **the first customer shall not be established in the Member State of the second customer**. Thus, it may not have its registered office, place of business or an establishment in the Member State of the second customer for VAT registration.

- The VAT Act allows a taxpayer to opt not to exempt from tax the supply of a building or part thereof, including the building plot on which the building is located if it is made after five years from the final inspection. With effect from 1 January 2018, the amendment introduces the payer's obligation to **notify the beneficiary of such decision in writing**. The deadline for notification is no later than the expiry of the period for issuing an invoice pursuant to the VAT Act.

- **The range of the investment property is extended**, which involves the obligation to monitor **the change of the intended use** for all types of **structures**. So far, such obligation has only been applicable to buildings. The said change will affect all engineering structures or constructions other than buildings for which input tax will be deducted after 31 December 2017. If the intended use of the structure is changed within the 20-year period provided for the adjustment of the tax deducted, the payer is obliged to adjust the tax deducted at the input.

- **The limit of EUR 5,000 and more on an invoice is abolished for the application of domestic reverse charge mechanism** with regard to the delivery of defined agricultural crops, defined metals, such as steel and iron, and metal semi-finished products. The reverse charge mechanism shall apply to all deliveries of such commodities without limit.



Income Tax

- **The definition of a taxpayer with unlimited tax liability – a natural person** shall be supplemented with **residence** as a new criterion. The reason is to bring the definition in the law into line with international practice and the context of double taxation treaties. A natural person is resident in the Slovak Republic if he/she has the option of accommodation which is not arranged only for occasional housing due to short-term visits (e.g. for business trips, tourism, recreation). At the same time, a natural person's intention of staying permanently in this place of residence must be apparent. The change will therefore affect those natural persons who have the option of accommodation in Slovakia, even though they spend less than 183 days in Slovakia.



• **The definition of a dependent person** is also extended. Any economically, personally or otherwise affiliated **entity** is deemed to be a dependent person. **The entity** means the legal arrangement of property (trust) or the legal arrangement of persons that has no legal character (e.g. partnership) or other legal arrangement that owns or manages the property. Any person or entity that is part of the consolidated group for consolidation purposes is also deemed to be a dependent person.



• **A fringe benefit** provided by the employer to the employee, namely arranging for **transport of the employee to the place of work** and back is **exempt from income tax** for the employee as of 1 January 2018. Such tax exemption is subject to proving that there is no other form of regular public transport that would allow the employees to be transported to work as required by the employer. Such is also conditional upon the participation of the employees in the reimbursement of expenses demonstrably incurred by the employer amounting to at least 60% in aggregate. If production in a multiple-shift operation is the main activity of the employer, the reimbursement shall amount to at least 30%. At the same time, such mode of transport to the place of work must use at least 30% of the total average registered number of employees.

• It introduces a **definition of an occasional activity for natural persons**. An occasional activity does not mean an activity performed on a contractual basis if the paying taxpayer is a legal entity or a natural person – an entrepreneur that may reduce the tax

base by the remuneration so paid. In practice, income from such activities was often deemed to be the other income of a natural person that may be tax-exempt up to EUR 500 per year. On the other hand, the tax base of entrepreneurs was reduced.

• With effect from 1 January 2018, it introduces a new **non-taxable portion of the tax base of the payer – a natural person for services paid at spa facilities**. A deductible item is determined at a maximum annual amount of **EUR 50** from demonstrably made payments. A taxpayer can apply the amount of EUR 50 for his/her wife/husband as well as each dependent child if they have attended the spa care along with the taxpayer.

• The range of expenditures which can be included in **tax expenses only after payment** has been extended by **advertising costs** incurred by a legally defined legal form of a non-business taxpayer, such as civic associations or foundations.

• It introduces a **special tax regime for the commercial use of intangible assets (the so-called patent box)**. This is an exemption of a part of legal entities' income (revenues) from remittances for granting the right to use or for the use of granted and registered patents and utility models, as well as from the use or for the use of software.

• As of 1 January 2018, a **special tax regime shall also apply to the commercial use of so-called embedded royalties**. This is an exemption of a part of legal entities' income (revenues) from the sale of products in the production of which a registered patent or a technical solution protected by a utility model is used.

• The area of **non-monetary contributions to registered capital** is also amended. As of 1 January 2018, the option to use original (historical) prices shall be abolished. For tax purposes, this use can only be made in real terms (with some exceptions).



- The Law Amendment introduces the so-called **exit tax**, i.e. when the taxpayer's assets are moved, the taxpayer moves or its business is moved abroad. The aim is to ensure that in these cases the economic value of all capital gains generated in our territory is taxed in Slovakia, even though these gains have not yet been realised at the time of moving. Exit tax shall be subject to a **21%** rate.
- The Law Amendment introduces **controlled foreign companies rules** (the so-called "CFC" rules) that will apply as of 1 January 2019. The aim of these rules is to prevent profit shifting outside the Slovak Republic. The essence is the attribution of income paid by a Slovak parent company to a low-taxed controlled subsidiary of that parent company. These are situations when the income is paid to a subsidiary without economic substance, and only for the purpose of obtaining a tax advantage for a Slovak parent company.

Tax Procedure Code

- The Amendment to the Tax Procedure Code introduces a **tax liability index**. It concerns the assessment of a taxable entity based on the fulfilment of its obligations to the Financial Administration. The objective is to encourage taxable entities to behave responsibly towards the Financial Administration and duly fulfil their obligations. Reliable taxable entities may be granted certain tax advantages. The information on what tax advantages a taxable entity is entitled to based on its assessment will be first sent to it by a tax office no later than the end of 2018.
- The Amendment to the Tax Procedure Code reforms the tax secret institute with effect from 1 January 2018. It alters its definition and also specifies what is not deemed to be a **tax secret**. For example, a tax secret does not mean the information which is publicly available or the information on whether a taxable entity is currently subject to a tax audit or not.

- The amendment extends the range of taxable entities that will be obliged to communicate with the tax administrator only electronically. **The obligation to make electronic submissions** shall, with effect **from 1 January 2018**, apply to all legal entities registered in the Commercial Register and their representatives. Natural persons – entrepreneurs (i.e. sole traders) registered for income tax and their representatives will be obliged to make their electronic submissions to the Financial Administration **as of 1 July 2018**. So far the said obligation has only been applicable to those taxable entities that have been VAT payers.

- As part of efforts to increase tax transparency, the Financial Directorate will publish a **list of taxable entities – legal entities including income tax assessment or tax loss** on its website. The list will be published quarterly, based on data from tax returns filed in the previous calendar quarter. The information will first be published on the basis of tax returns filed in 2018 for tax periods starting after 31 December 2016.

- On its website, the Financial Directorate will also publish a **list of taxable entities including the amount of excessive VAT deduction applied or the amount of VAT liability reported**. The declared purpose of disclosing this information is to reduce the scope for tax fraud. The list will be published quarterly, based on data from VAT returns filed in the previous calendar quarter. The information will first be published on the basis of tax returns filed in 2018 for tax periods starting after 31 December 2016.

- A **time limit to lodge an appeal** against a decision is extended from the current 15 days to 30 days. Such extended time limit shall apply to decisions issued after 31 December 2017.



Act on Accounting

- With effect from 1 January 2018, a **time limit** for an accounting entity to **store the notice of the date of approval of the financial statements** extends from the original five business days to **15 business days**.
- **The period for archiving accounting documents** is brought into line with the period for archiving the financial statements, as well as the documents necessary for their preparation. Accounting documents must be archived by an accounting entity for **10 years** (instead of the original five years) following the year to which they relate. The foregoing shall also apply to the retention of accounting records for which a five-year archiving period has not yet expired by 1 January 2018.

Electronic Cash Register

- The Law Amendment introduces an obligation for an entrepreneur who is not subject to the obligation to record its sales with an electronic or virtual cash register to make available at any of its points of sale **a notice** stating that **it is not legally obliged to use an electronic or virtual cash register**. The law does not prescribe exactly what such notice must include. The entrepreneur may also choose the format and placement of the notice. However, such notice should be clear, comprehensible, easily accessible, and readable to the buyer.
- The Law Amendment **shortens the time limit for notifying the change of the point of sale** from the original 30 days to **15 days**.
- The Act on the Use of Electronic Cash Registers requires that any cash receipt contains a designation of the goods or services. The designation of the

goods or services must be made in such a way that the goods or services being sold may be unequivocally identified or named. It is also possible to indicate an abbreviated name of the goods or services. With effect from 1 January 2018, the law explicitly **prohibits** using **only a numeric character or alphanumeric code to designate the goods or services**. The goods or services must be designated with a word mark or word mark combined with a numeric character or alphanumeric code.

Minimum Wage

With effect from 1 January 2018, the minimum wage increases from the current EUR 435 to **EUR 480 per month**. The minimum wage for an employee remunerated at an hourly rate in the 40-hour week changes from the current EUR 2.500 to **EUR 2.759/hour**.

Work on Public Holidays

With effect from 1 June 2017, working conditions on public holidays were changed. On public holidays it is not possible to order an employee to perform work or agree with him/her on work performance which is the sale of goods to the final consumer. The exception includes retail sales at petrol stations, dispensation of drugs at pharmacies, sales at public transport facilities and hospitals, sales of tickets, souvenirs and flowers on selected days.

The said prohibition shall not apply to natural persons who provide the sales of goods without the use of employees, or if the entrepreneur offers services (e.g. mobile operators, travel agencies, hire companies, etc.).



Social Insurance

As of 1 January 2018, the amount of the maximum assessment basis for the payment of social insurance contributions to the Social Insurance Agency changes from the current amount of EUR 6,181 to **EUR 6,384 per month**.

Illegal Work and Illegal Employment, Registration with the Social Insurance Agency

With effect from 1 January 2018, the amendment to the Act on Illegal Work and Illegal Employment changes the definition of illegal employment. Illegal employment does not mean a situation where the employer fulfils its obligation to register the employees with the Social Insurance Agency only with a minor delay of **no more than seven days** on its own, provided that the non-fulfilment of such obligation has not been ascertained by inspection bodies. A violation of the ban on illegal employment is subject to a fine **ranging from EUR 2,000 to EUR 200,000**. With regard to the illegal employment of two or more natural persons at the same time, the fine shall amount to at least **EUR 5,000**.

Please note that **the time limit for registering an employee with the Social Insurance Agency** remains unchanged even after 1 January 2018.

The employer is obliged to register an employee with the Social Insurance Agency prior to entering into a legal relationship with the entitlement to wage-earning revenues no later than on the date of entry into this legal relationship, but before the employee starts to work.

However, **the time limit for cancelling the employee's registration in the Social Insurance Agency has changed**. So far the employer has been obliged to cancel the employee's registration within one day following the termination of the insurance relationship. As of 1 January 2018, the said time limit is extended for eight days.

The amendment to the Act on Social Insurance also alters **the time limit for employer's registration**. Under the current legislation, an employer is obliged to register with the Social Insurance Agency (i.e. to ensure its entry in the register of employers) within eight days from the day the employer started to employ at least one employee. As of 1 January 2018, an employer is obliged to register with the Social Insurance Agency no later than on the day preceding the day it started to employ at least one employee.

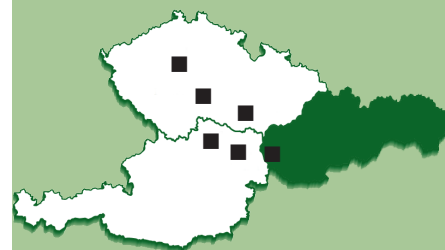
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AUDITOR in Central Europe

AUDITOR is an audit and tax consulting company with an international focus that has been providing services for 15 years in **audit, tax consulting, personnel and payroll administration, financial accounting and business consulting**.

The company provides complex consultancy in Central European countries via sister companies in the Czech Republic and Austria (using **Stöger & Partner** as a brand name). For solving global consultancy issues, Stöger & Partner is an independent consultancy companies in more than 80 countries of the world.



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