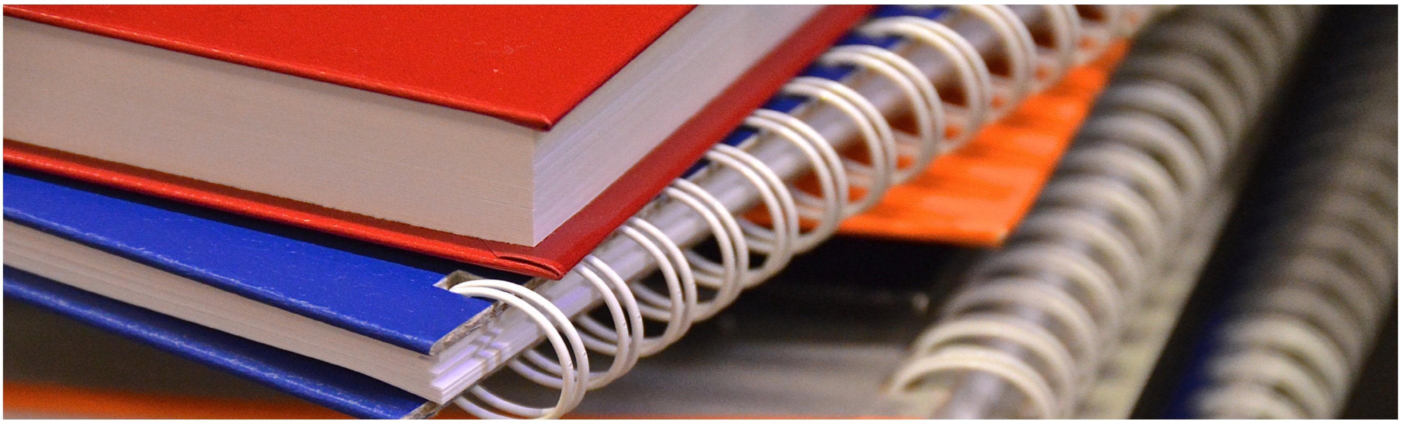
Information for clients No. 1

Slovakia
March 2018

Changes in Taxation of Dividends

As of January 1, 2017, new legal regulations for dividend taxation apply in the Slovak Republic. The changes shall first apply to dividends on profits for the year 2017, or for financial years that started in 2017. When paying out shares of profits in 2018 and in subsequent years, it is therefore necessary to pay attention to the year in which those profits were generated. In the following text, we will provide you with a basic overview of the taxation rules for shares paid out of profits reported after 1 January 2017 for both natural persons and legal entities.



Taxation and the method of taxation of profit-sharing depend on a number of facts. Especially on the type of recipient (natural person or legal entity) and their tax residence (resident or non-resident, contracting state or non-contracting state), tax residence of the dividend payer (resident or non-resident, contracting state or non-contracting state), and the country of the source of dividends (Slovakia, contracting state, or non-contracting state).

1. Taxation of profit-sharing for legal entities

a. Recipient – resident

Paying company – a resident

In the case of legal entities (residents), dividends resulting from profits of taxpayers with unlimited liability (residents) are still excluded from taxation. However, the shares of profits of partners of public companies and general partners of limited partnerships are still not excluded from corporate income tax (i.e. continue to be subject to tax).

Paying company – a non-resident

The taxability of such revenues depends on whether they arise from a taxpayer with limited liability that is a tax resident of a so-called contracting state or a tax resident of a non-contracting state.

Tax residents of a so-called non-contracting state are considered to be natural persons not having permanent residence or legal entities not having registered office in a state listed in the list of countries published by the Ministry of Finance of the Slovak Republic. In this list, the Ministry publishes the countries with which the Slovak Republic has concluded an agreement for the avoidance of double taxation (AADT), or another international agreement on the exchange of information concerning taxes.

Dividends arising from the profits of companies that are **residents of the contracting states** are excluded from taxation.

Dividends arising from **taxpayers that are residents of non-contracting states** have been subject to tax for legal entities as of 1 January 2017 at a rate of **35%.**

b. Recipient – non-resident

In the case of a legal entity that is a taxpayer with limited tax liability, the dividends are subject to tax only in the case of a resident of a **so-called non-contracting state.** The tax is collected as a tax deduction of **35%**. The dividend payer (a Slovak company) is required to deduct the tax, and pay it to the tax administrator on the 15th day of the following calendar month at the latest. At the same time, the dividend payer is required to notify the tax administrator of this fact on a respective form.

2. Taxation of profit-sharing for natural persons

a. Recipient – resident

In the case of natural persons - residents - dividends are subject to income tax. The manner of their taxation, as well as the tax rate, depends on the dividend payer.

Dividends arising from the profits of Slovak companies **(residents of Slovakia)** are taxed with a 7% withholding tax. The dividend payer (a Slovak company) is required to deduct the tax and pay it to the tax administrator on the 15th day of the following calendar month at the latest. At the same time, the dividend payer is required to notify the tax administrator of this fact on a respective form.

Dividends arising from **non-resident taxpayers** are part of the special tax base in the tax declaration. If they arise from **residents of the contracting states,** they are taxed at a rate of 7%. If they arise from **residents of so-called non-contracting states,** then at a rate of 35%.

b. Recipient – non-resident

In the case of a natural person that is a taxpayer with limited tax liability, the dividends are subject to tax only in the case that they arise from a source in Slovakia. The tax is collected as a tax deduction at their payment. The amount of the withholding tax is 35% if the dividend recipient is a natural person who is **a resident of a so-called non-contracting state.** When dividends are paid to natural persons from so-called **contracting states,** the withholding tax rate of 7% or **a rate according to a relevant agreement for the avoidance of double taxation** shall apply.

The dividend payer (a Slovak company) is required to deduct the tax and pay it to the tax administrator on the 15th day of the following calendar month at the latest. At the same time, the dividend payer is required to notify the tax administrator of this fact on a respective form.

3. Summary

A summary of the basic dividend taxation rules is shown in the following table.

Recipient	Source of Income	A Way of Taxation	Tax Rate
Natural Person:			
- resident of Slovakia	Slovakia	withholding tax	7%
	contracting state	tax declaration	7%
	non-contracting state	tax declaration	35%
-non-resident of Slovakia - resident of a contracting state	Slovakia	withholding tax	7%, or a rate according to AADT
-non-resident of Slovakia - resident of a non-contracting state	Slovakia	withholding tax	35%
Legal Entity:			
-resident od Slovakia	Slovakia	-	-
	contracting state	-	-
	non-contracting state	tax declaration	35%
-non-resident of Slovakia - resident of a contracting state	Slovakia	-	-
-non-resident of Slovakia - resident of a non-contracting state	Slovakia	tax declaration	35%

The above rules apply to dividends paid to partners, i.e. to persons who participate in the capital of the company distributing the dividends.

If dividends for example are paid to employees who do not participate in the company's capital, they are considered to be income from employment. These are taxed in advance as part of the income tax base from employment.

We will be glad to help you address specific issues regarding profit-sharing taxation.

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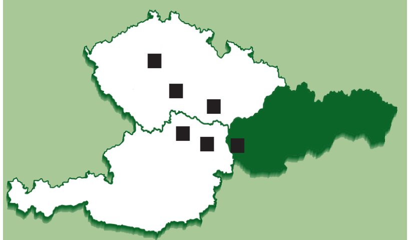

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