Audit ▪ Tax ▪ Accounting

Information for clients

Slovakia
December 2019

Dear clients!

As every year, we would like to inform you about some tax news that will come to us next year. The pre-election year brings numerous changes in the area of taxes, accounting and payroll, which make our profession and your business activities a bit more demanding again. But we are happy to take on this challenge and offer you our many years of experience and competent advice.

We have had a stable and successful year, which would not be possible without our dedicated team. Therefore we would like to take this opportunity to thank all our employees very warmly. Our thanks go to everyone for their dedication, engagement and knowledge, which they have brought in continuously.

Above all, however, our thanks go to you, our clients. Thank you for your loyalty and for the trust you have placed in our company and our work. We hope that the cooperation in the past year was as satisfactory and successful for you as it was for us.

On behalf of our entire team, we wish you and all of your employees happy holidays and a successful, healthy 2020. We look forward to working with you in 2020.

With the best Christmas greetings

Your

Ing. Natália Šenková, LL.M. , Ing. Jana Sadloňová, Mag. Georg Stöger

Mag. Natália Šenková, LL.M.
Managing Partner

Ing. Jana Sadloňová
Managing Partner

Mag. Georg Stöger
Managing Partner

Tax and levy news 2020

In the autumn, amendments to several regulations in the areas of taxes, accounting and wages were introduced. Most of them will come into effect on 1 January 2020. We have prepared an overview of the most important changes for you.

Income tax

■ **‚The micro tax-payer'** expression has been introduced to support the development of small tax-payers.

Under the micro tax-payer, an **individual** has to be understood, which achieves incomes from business or any other self-employment activities, and the amount of such income (revenues) for the taxation period does not exceed the amount for mandatory registration for value added tax, i.e. current amount of EUR 49,790. A **legal entity** whose revenues for the taxation period do not exceed this amount is also considered a micro tax-payer.

The only exception are taxpayers who have executed transactions with dependant entities, on whom bankruptcy was declared, who entered into liquidation or whom an instalment calendar was approved in the relevant taxation period.

When quantifying the income tax base, a micro tax-payer will be entitled to apply various simplifications, for instance:

- For movable property belonging to depreciation groups 0 to 4 (with the exception of passenger cars with acquisition costs of EUR 48,000 or more), the possibility to apply tax depreciation of an amount specified by them - even one-off depreciation, however no longer than during the depreciation period determined for the relevant depreciation group;
- For tangible assets classified in depreciation groups 0 to 4 granted for lease, the possibility to apply tax depreciation without any limitation related the amount of rental income;
- The possibility of deducting the tax loss up to the amount of the tax base;
- The full tax deductibility of the cleared allowance for receivables.

For the first time, the micro tax payer status may be taken by a tax payer for the taxable period beginning not earlier than **1 January 2021**.

■ **Exemption of benefits provided by employers in the form of education** is being extended. Newly, an employee will also be exempted from tax even for a non-monetary income provided in the form of the employee's qualifications increase (e.g. school leaving exam, university graduation, etc.). With regard to the education level increase to higher education of the first or second degree, there is the condition of the employee's employment at the beginning of the academic year concerned which must insist at least 24 months continuously.

In the event that the supported training activities are not related to the employer's business activity, the employee's income will not be exempted from employment tax. On the employer's side this will be a non-tax expense.

■ A new exempted income type for an employee will also be the income from **the social fund for medical preventive checks** provided above the statutory framework.

■ It regulates the expense scopes which are considered to be **tax expenses after paying them only:**

- The expense amount monitored will no more be relevant, e. g. the limit of 20% of the brokered trade value is deleted;
- The expenditure range is extended to include services related to management and consulting services in the field of business and other areas of management (corporate, financial, marketing management, production management, business processes, etc.),
- The expenditure monitored will again include contractual penalties, delay penalties and interests, as well as lump-sum reimbursement of claims lodged against the debtor.

■ In relation to the electric mobility promotion, a new depreciation group 0 is being introduced with a depreciation period of 2 years, which includes passenger cars - battery electric vehicles (BEV) and plug-in hybrid electric vehicles (PHEV).

■ **The income tax advance payment limit increases from EUR 2,500 to EUR 5,000,** both for individuals with business income as well as for legal entities. It also simplifies the calculation of tax for the previous tax period and the last known tax liability on which the liability to pay income tax advance payments depends prospectively.

■ A new tax rate of **15% is introduced for physical entities earning their incomes from business and other self-employment activities up to EUR 100,000.** If the income from business and other self-employment exceeds EUR 100,000 for one taxation period, the tax will be calculated in the same way as before, i.e. at a progressive tax rate of 19% and 25%.

A reduced corporate income tax rate of **15%** is also introduced for those tax-payers whose revenue for one tax year does not exceed EUR **100,000**. Otherwise, a tax rate of **21%** will be applied.

The reduced tax rates shall apply to tax periods beginning on **1 January 2020** at the earliest.

■ For the purpose of overdue liabilities **taxing additionally**, it is precisely specified that replacing the original obligation with a new promissory note is not considered to be a liability settlement. It is also postulated that in the case of obligation novation under the Civil Code, the maturity of the obligation means the maturity of the original obligation. Therefore, the maturity is not changed for tax purposes.

■ With effect from 1 January 2020, the Council Directive (EU) 2017/952 on hybrid **non-compliance with third countries** (so-called ATAD 2) has been implicated in the Income Tax Act.

■ New conditions **for deduction of tax losses** are introduced. It will be possible to deduct the tax loss for a maximum of 5 consecutive tax periods after its occurrence. In the case of micro tax-payer, the amount of the amortizable loss is not limited. Other tax-payers will be able to claim a tax loss of up to 50% of the reported tax base.

The new rules will be applied to tax losses reported for taxable periods **beginning no earlier than on 1 January 2020.**

Value added tax

■ The range of supplies of goods and services that do not lead to mandatory VAT registration of a foreign entity in the Slovak Republic is extended.

■ In accordance with EU Council Directive No. 2018/1910 the **call-off stock** mode was introduced from 1 January 2020. This is mandatory for all EU Member States. If the conditions laid down by the law are met, the transport of goods which are the commercial property of a taxable entity (supplier) to another Member State for the purpose of subsequent supply to a known taxable entity identified for VAT in the Member State of destination is not considered a transfer of goods to another Member State. The most important changes compared to the current legal situation are as follows:

- The new rules also regulate this mode from the position of the Slovak Republic as a Member State of the commencement of the goods transport, i.e. Member State of delivery.
- The application of the call-off stock mode does not prevent the supplier from being assigned a VAT identification number in the Member State of destination.
- The goods must be delivered to an entity for whom they are intended within 12 months from the transport end.

The amendment to the VAT Act introduces a detailed recording obligation for both entities involved in a call-off stock transaction. A new model of the EC Sales List is also determined in this context.

■ The VAT Act is also completed by clear rules **regarding the assignment of the goods transport in the so-called „chain transactions“.** A chain transaction is a situation where the same goods are the subject of several successive deliveries, where the goods are dispatched or transported from one Member State to another Member State, directly from the first supplier to the final customer within that chain.

If the transport is provided by an intermediate entity, i.e. the entity purchasing the goods from the first supplier in the chain, then the goods transport shall be assigned to that first goods supply. Practically, this means that the first supplier performs so-called "movable supply" (i.e. supply linked with shipping).

However, if the intermediary entity notifies the first supplier of the VAT identification number allocated in the Member State where the transport of the goods ends, the transport of the goods shall be attributed to the supply of goods by the intermediary. Practically, this means that the first supplier performs the „non-movable supply" (i.e. supply without shipping) and the intermediate person carries out the so-called „movable supply" (i.e. supply linked with shipping).

■ The exemption of the goods supply to another Member State shall not be acknowledged if the supplier failed to submit an EC Sales List for the period concerned, or if the data in the EC Sales List submitted are incorrect, false or incomplete. Thus, from 1 January 2020, the supply of goods to another Member State in the EC Sales List becomes one of the conditions for exemption from VAT.

■ From 1 January 2020, a reduced VAT rate of 10% will be also applied to newspapers, magazines and periodicals published at least four times a week (except for those in which advertising and sales promotion constitute more than 50% of total content, and those in which erotic content represents more than 10% of the total). The range of foodstuffs to be taxed at a reduced VAT rate of 10% is also expanding.

Tax Code

- From 1 January 2020, the tax administrator will be able to waive **the requirement of an official (legal) translation of documents to be submitted by a taxpayer.**

- It is also regulated that any new power of attorney submitted by the taxpayer will always replace the previous one to the extent that they overlap.

- The obligation of domestic physical and legal entities to **advise** the tax administrator of the **bank account numbers** used for business activities during the registration procedure **is deleted**. This information is provided to the tax administrator directly by banks.

- **A new type of tax distrain** is being introduced, namely the distrain consisting in withholding a driving license. This type of execution cannot be applied to so-called professional drivers.

Labour Code

- According to the arrangements valid until 31 December 2019, the basic holiday time is at least 4 weeks and for employees over the age of 33 years it is at least 5 weeks. With effect from 1 January 2020, **the basic holiday time of at least five weeks shall** also be increased for those employees who take care of a child on a permanent basis.

- With effect from 1 January 2020, the possibility of an employer's **voluntary contribution to the regular sporting activity of the child's employee** is introduced. The condition is that the employment relationship of the employee with the employer lasts at least 24 months.

The contribution will be granted at the request of a staff member in the amount of **55% of the eligible expenditure,** but not more than **EUR 275** per calendar year in total for all children of an individual staff member. Under eligible expenses, proven expenses of the employee for the child's sporting activity exclusively in the sport organization, which is registered in the Register of Legal Entities in sport branches shall be understood.

This benefit will be exempted from employees' tax on dependent activity and thus also from social and health insurance contributions.

Minimum wage

- The minimum wage amount for 2020 is **EUR 580** for an employee being paid off by monthly wage. This represents the wage increase by **EUR 60** when comparing it with 2019. For an employee working for hourly wage the minimum wage is **EUR 3.333** for each worked hour by the employee.

Illegal work and illegal employment

- From 1 January 2020, the exemption from illegal employment and illegal work will be extended. Illegal employment shall not be deemed to be a situation where a relative in a straight line, a sibling or a spouse performs a work for a physical entity/ entrepreneur or a limited liability company with one partner.

Accounting Law

To remove the administrative burden, the size criteria for the obligatory audit are increased as follows:

	Status until 31 December 2019	Status after 1 January 2020
Assets	1.000.000 EUR	2.000.000 EUR
Net turnover	2.000.000 EUR	4.000.000 EUR
Average calculated number of employees	30	30

New conditions are related to the accounting periods beginning from 1 January 2020 and later.

Feel free to contact us for any questions you might have.

Ing. Jana Sadloňová
Managing partner
T: +421 2 544 14 660
jana.sadlonova@auditor.eu

AUDITOR in Central Europe

AUDITOR is an audit and tax consulting company with an international focus that has been providing services since 1999 years in **audit, tax consulting, personel** and **payroll administration**, **financial accounting** and **business consulting**.

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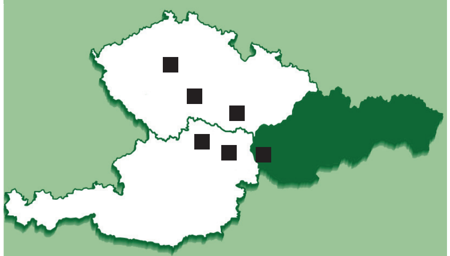

Mag. Georg Stöger
International Tax issues

Ivana Kováčová
Payroll

Ing. Eva Lenorovičová
Accounting

Ing. Jana Sadloňová
Tax Advisory

Office Bratislava
Fraňa Kráľa 35
811 05 Bratislava

T: +421 2 544 14 660
bratislava@auditor.eu