



Information for clients No. 3

Slovakia
December 2016

Dear clients!

Year-end is once again approaching so we would like to take a brief look at the past year.

You will have certainly noticed that our company has passed some turbulent times. Frequent personnel changes in all areas presented difficulties internally and adversely influenced mutual cooperation with our clients.

Some have ceased cooperation with us, so hence we are grateful to our regular clients that have demonstrated their understanding and trust in this situation.

*In Slovakia, we succeeded in putting together a brand new team. Mrs. **Mag. Natália Šenková, LL.M.**, a native Slovak and graduate of the University of Economics and International Tax LLM in Vienna, and tax advisor in the Czech and Slovak Republic, as the executive director may justly be considered the peak power of our company. She is primarily responsible for the organization and international tax law.*

*The tax department is newly managed by Mrs. **Ing. Jana Sadloňová**. Mrs. **Ing. Eva Lenorovičová** has stayed*

*in our team and ensures continuity in the knowledge of specifics of our client portfolio. A new position was introduced as head of the accounting department and is held by Mrs. **Ing. Henrieta Slaninová**. Our long-time employee, Mrs. **Ivana Kováčová**, was appointed head of the payroll department.*

We are strongly convinced that with our new, young and dynamic team we are again in the best condition to provide the highest level tax advisory, accounting and payroll services to our clients for their business activities in Slovakia.

In addition to the reorganization, we have considerably concentrated on issues of transfer pricing this year. We strongly recommend that you prepare transfer pricing documentation in the case of existing trade relations between affiliates – we have specialists in this field.

A look across the border indicates our strong growth in the Czech Republic, where we currently have nearly 100 employees. We have also grown in Austria this year, where we support many Czech and Slovak companies in their



Ivana Kováčová



Ing. Eva Lenorovičová



Ing. Jana Sadloňová



Ing. Henrieta Slaninová



quest to become internationally active.

As in previous years, this year we are refraining from sending Christmas gifts and cards. Instead, we have donated the funds to a cultural project, a fund to support the homeless, and a project supporting children with special needs.

We would like to take this opportunity to thank our

employees for their extraordinary commitment in the recent difficult times.

Our thanks, however, goes especially to you, our clients – with some of whom we have enjoyed over 15 years of cooperation.

We wish you all merry and peaceful Christmas and much success in 2017.

Mag. Natália Šenková, LL.M.
Managing Director



Mag. Georg Stöger
Managing Partner



Tax and contribution news in 2017

The National Council of the Slovak Republic approved several amendments to regulations in taxes, duties and salaries during October and November 2016. We bring you an overview of selected major changes, which are effective from 1 January 2017 or 1 January 2018.

Act on VAT

■ Domestic reverse charge in construction works

We are expecting simplification in the application of domestic reverse charge procedure for so-called construction works in the new year. So far in practice there was often a lack of uniformity in the assessment of activities' classification provided by a supplier and customer, which also led to tax risks. Under the new law, if a taxpayer supplies construction works and reasonably believes that these are activities subject to the domestic reverse charge procedure, then the customer also applies the reverse charge.

■ Changes in control reports

A taxpayer supplying construction works subject to

reverse charge procedure will be obliged to report issued invoices in section A.2 of the control report from 1 January 2017. At present, issued invoices for such supplies are not reported in the tax return or control report. In connection with these changes, a new model of control report to VAT will be used for the period of January 2017 or Q1 2017.

■ Interest on late refund of excess VAT deduction during a tax audit

The institute of interest on late refund of excess VAT deduction is about to be introduced. This is monetary compensation in a situation where due to the performance of a tax audit for VAT, funds in the amount of reported excess VAT deduction are temporarily retained to the taxpayer. The right to interest accrues to the taxpayer for each day after the end of six months after the lapse of the standard deadline for VAT refund, until its return. Its amount is set at two times the base rate of the ECB, or at least 1.5% per year. The tax office will decide on interest on the excess VAT deduction at its own motion, it is not necessary to apply for it.

■ VAT treatment of importation of goods

The present wording of the Act on VAT provided for the



introduction of so-called “reverse charge” procedure on importation of goods from third countries from 1 January 2017. Instead of paying tax on importation of goods, taxpayers would declare such tax in the tax return and at the same time exercise the right to tax deduction. The amendment to the act, however, extended this feature indefinitely.

Act on Income Tax

■ Tax on dividends

With effect from 1 January 2017, the taxation of dividends will be introduced. This change will affect in particular natural persons, in the case of legal persons only those shares in profit that will flow to or from states which do not have a Double Tax Treaty concluded with the Slovak Republic or any international agreement on exchange of information in tax matters (hereinafter referred to as „non-contracting state“).

Shares in profit originating **from sources in Slovakia** will be taxed to domestic natural persons and natural persons who are not residents at a withholding tax of **7%**, or at a reduced rate under the Double Tax Treaty. This income will be subject to withholding tax of **35%** for natural persons from non-contracting states.

Shares in profit originating **from sources abroad** will be taxed to the natural person in the tax return at a tax rate of **7%**. If such shares come from a non-contracting state, the tax rate for a natural person will be **35%**.

If the payee is a legal person, the shares in profits coming **from or to a non-contracting state are taxable at 35%**. In other cases the shares in profit are not subject to tax.

Following the introduction of the tax on dividends, shares in profit will not be subject to health insurance of natural persons from 1 January 2017. For „old“ dividends, i.e. paid out of profits generated prior to 1 January 2017, the old regime remains in force.

■ Reduction of income tax rate of legal persons

The income tax rate of legal persons will be reduced from the present **22%** to **21%**. The new rate shall first apply for the tax period that begins not earlier than on **1 January 2017**.

■ Minimum tax abolished for a legal person

With effect from **1 January 2018**, the minimum tax, which must be paid by the legal person for any tax period, will be abolished. The minimum tax will be paid the last time for 2017.

■ Flat-rate expenses of natural persons

The amendment to the Act on income tax increases the limit of flat-rate expenses from the current **40%** to **60%** of achieved revenues, up to a maximum amount of **EUR 20,000** from 1 January 2017. Up to 31 December 2016, flat-rate expenses up to the maximum amount of **EUR 5,040** can be applied. At the same time the pro rata reduction of the amount of flat-rate expenses in the first and last year of business will be cancelled.

■ Changes in relation to transfer pricing

The terms „economic and personal links“ are specified in more detail, and thus the circle of entities that will be subject to transfer pricing rules is widened. Among other things, under the new act also those legal persons will be considered to be related parties who are under the management of people close to each other. The new act also introduces a doubling of penalties for taxpayers who intentionally reduce the tax base and increase tax loss through transfer pricing.



If the tax base is increased within a transaction between two domestic related parties on own initiative or by the tax authority of one taxpayer, the other taxpayer will not have to apply for the corresponding reduction of the tax base at the tax authority.



A fixed fee is introduced for an application for the advance pricing agreement. Its amount will no longer depend on the value of the business case. The fee amount shall be set at EUR 10,000 in the case of unilateral agreement or EUR 30,000 if foreign tax authorities are involved.

■ Tax expenses

The amendment to the act clarifies the concept of expenses (costs) to rent, where the tax deductibility is contingent on payment. Remuneration for the right to use or the use of the subject of industrial property, software, design or model, plan, know-how, and the remuneration for granting the right to use or the use of copyright or related rights are also considered to be such expenses. This will now be applied to all tax returns filed after 31 December 2016.

With effect from 1 January 2017, expenses for the technical improvement, operation, repair and maintenance of movable objects or real property utilized under a **free-of-charge rental agreement** will not be considered tax expenses. Tax expenses are only the energy costs incurred by users in connection with the free use of such movable object or real property.

Tax Code

■ Deficiencies in the filing of tax returns

The amendment to the Tax Code introduces a new

adjustment called the reproach procedure. If the taxpayer does not remove deficiencies in the filed tax returns, or its annexes, which affect the amount of tax, or the claim within the time limit set by the tax authority, the tax authority shall either carry out a tax audit or levy a tax, or adjust the claim in the newly introduced **accelerated levy procedure**. The tax authority shall issue an order to levy tax, against which the only defence is the incentive for examination by the court.

If the tax return is not signed or signed by an unauthorized person, and if the taxpayer following the call does not remove these deficiencies in full, the tax return is considered non-filed. The same shall apply in the event of the tax return not being filed on a form applicable to the relevant tax period.



■ Interim measures

The new regulation will extend the possibility of using so-called interim measures. Generally, the tax authority may impose an interim measure on a tax entity in order to perform something, not to perform something, or to tolerate something. For example, in the case of a tax audit, when the tax authority has legitimate concerns that the tax not yet due or not yet levied will not be paid at the time when due, the taxpayer may be required to deposit a sum of money to the account of the tax authority. With effect from 1 January 2017, an interim measure issued by the tax authority constitutes an enforcement order.



■ Simplifications for deferred tax payment and payment of tax in instalments

The obligation to provide the outstanding amount of the lien if the amount of tax or tax arrears does not exceed EUR 3,000 will be abolished. The restriction under which it is possible to permit a deferred tax payment or to pay the tax in instalments is also deleted only in cases when at least one year has elapsed from the date of final permission of deferral or payment.

Minimum wage

With effect from 1 January 2017, the minimum wage will be increased from the current EUR 405 to EUR 435 per month. The minimum wage of an employee paid on an hourly rate with a fixed 40-hour working time will be changed from the current EUR 2,328 to EUR 2,500/hour.

Health insurance

From 1 January 2017, the amendment to the Health Insurance Act repeals the maximum assessment base for the contribution to health insurance. The minimal assessment base is retained. Health insurance companies take account of these changes for the first time in the annual settlement of health insurance for 2017.

The maximum assessment base is retained only for income from dividends from profits made over 2011 – 2016 to be distributed after 1 January 2017. For 2017 it is the sum of EUR 52 980.

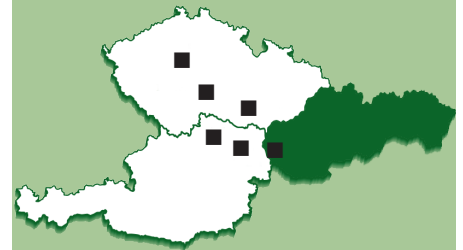
Social insurance

With effect from 1 January 2017, the maximum assessment base for the payment of contributions to the Social Insurance Agency will be changed from the current EUR 4,290 to EUR 6,181 per month. ■

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