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Changes to Slovak tax legislation

This article provides a brief overview of important legislative changes in Slovak tax legislation which have recently come into effect.

End of flat tax rate

Based on the amendment to the Income Tax Act, as of January 1 2013, Slovakia no longer has a flat rate tax for companies (legal persons) and individuals. The tax rate for companies increased from 19% to 23%. As regards individuals (natural persons), two tax rates exist, and these will be applied in the following way:

- individuals earning per year less or equal to the amount of 176.8 times the subsistence level (currently €34,401.74, or $44,807) will pay 19% tax;
- individuals earning per year more than 176.8 times the subsistence level will pay 19% on the amount up to 176,8 times the subsistence level, and 25% tax on the anything above 176.8 times the subsistence level.

The subsistence level is increased each year. The income of individuals and profits of companies for 2012 will still be taxed by the lower rate of 19% (that is, the increased tax rates will apply for tax periods starting in 2013).

Limitation of postponement of tax returns

Under the new regime, tax payers will generally have three months after the tax period in which to submit tax returns (if the tax period ends on December 31 2012, the tax return must be submitted by April 2 2013).

However, tax payers who have income from outside Slovakia may extend the deadline for submission of a tax return by a maximum of three months by sending an announcement to the tax authority by the end of the initial three month statutory period.

Changes to health insurance contributions

Dividends paid from 2013 profits distributed to individual persons subject to Slovak health insurance will be subject to an increased rate of health insurance contributions. The rate has increased from 10% to 14% Moreover, the maximum assessment base from which these contributions are calculated was also increased (by more than four times).

VAT guarantee

Based on the amendment to the Value Added Tax Act, the conditions for value added tax (VAT) guarantee by the recipient of services or purchaser of goods were extended. Based on new legislation, the VAT payer as recipient of services or purchaser of goods (the recipient) guarantees the amount of VAT which was stated on the invoice but which the supplier did not remit to the state. However, the guarantee concept applies only when the recipient (i) knew, or (ii) based on sufficient reasons could have known or should have known, that part or the whole amount of VAT would not be remitted to the state. The recipient is considered to have known or should have known in the following cases:

- the consideration (price) stated on the invoice is without economical substance, either disproportionately high or disproportionately low; or
- the recipient continued to conduct taxable transactions with the supplier the VAT registration of whom could be cancelled even after the supplier was listed in the the list of potentially risky VAT payers (published by the Financial Directorate of the Slovak Republic); or
- when tax obligations arose, the recipient was a statutory body or member of a statutory body or shareholder of a supplier of goods or a provider of services.

In practice, this new concept of VAT guar-

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antee means that if a supplier who is mentioned in the list of potentially risky VAT payers supplies goods or provides services, but does not remit the respective VAT to the state, the tax authority might request the VAT from the recipient. The recipient is obliged to pay the VAT within eight days as of the tax authority's request. Even though the recipient might file an appeal against such a request, the appeal does not suspend the obligation to pay the VAT.

From a practical point of view, before companies (registered VAT payers) start, as recipients of goods or services, doing business with other VAT payers they should check whether their supplier is listed as a potentially risky VAT payer (list is accessible on www.drsr.sk).

Rating of tax payers

The Government plans to award ratings to tax payers based on criteria such as financial stability, tax reliability and donorship. Taxpayers will be obliged to state their rating (awarded each year) on all accounting documents (such as invoices). Tax payers with good ratings should get better treatment from tax authorities compared to those with bad ratings (such as more controls). The plan is to implement the rating system in 2014; however, no legislative draft has been made available, so far.

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