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Futej & Partners

Tightening of investment aid conditions

For a long time the Act on Investment Aid in the Slovak Republic has regulated investment aid provided by the state budget to domestic and foreign entrepreneurs and investors. Investment aid may be provided in the following forms: financial grants from the state budget; income tax relief; grants for newly established employment positions or transfer of state property to the entrepreneur for a price lower than the given market price. Entrepreneurs can obtain investment aid in some of the listed forms for a project in one of the supported areas. The supported areas are: industrial production; technological centres; and, centres of strategic services and tourism. Providing investment aid for these areas was changed by extensive amendments to the Act on Investment Aid in force since May 1 2013.

From now on, a candidate for investment aid in the area of industrial production must create a minimum of 40 employment positions. An investor who applies for aid to expand an existing business is obliged to secure an increase of the number of employees in the enterprise at a minimum of 10%. Determining the compulsory number of newly created employment positions relates to all areas in which investment aid is provided, and can significantly reduce the number of candidates for investment aid. If, for example, a company holding 5000 employees creates only 499 new employment positions, they will not satisfy the conditions for providing investment aid.

The amendment has lowered the limit of the minimum amount of investment property of the candidates in the area of industrial production. The limit depends on the unemployment rate in the district of proposed investment. In districts with the

highest unemployment rate (such as Rimavská Sobota) it is enough for the candidate to procure € million (\$4.07 million) instead of the original €5 million to secure the investment. In districts with the lowest unemployment rate (such as Bratislava) the investor will have to get €10 million for their project, which is € million less compared to previous legislation.

Another supported area are technological centres (the places in which performance of innovative activities or improvement of products take place). A candidate for state aid in this area must now employ at least 70% of academically educated employers. This is 10% more than in the past. To get the investment aid in centres of strategic services (for example centres for the development of computer programs), there must a minimum of 60% academically educated employers, which is 30% more compared to previous legislation.

The designed tightening of conditions to obtain investment aid, particularly in terms of creating new employment positions, can cause several problems in practice. Apart from narrowing the number of possible investors applying for investment aid, it may significantly lower the competitiveness of Slovakia in securing investment on an international level.

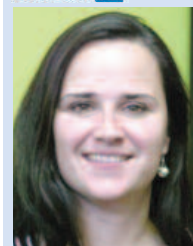
Also, restrictions preventing investors from making significant changes of ownership within the company during the given period may be problematic. This period is the period of realisation of investment intention, using the investment aid and the period of five years after finishing the realisation of the investment intention. This means that each entrepreneur who applied for investment aid after March 31 2013 cannot transfer their company to another subject during the given period. Entrepreneurs to whom the investment aid was granted after March 31 2013, but has submitted an application before this date is not subject to this restriction. In this case, investment aid will be administered according to the original wording of the Act. Entrepreneurs may consider the ban on significant changes of



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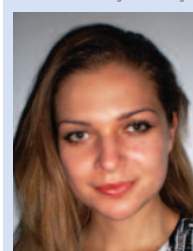
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ownership structure as relatively limiting, since until now, it was relatively common that after obtaining financial aid, it was then transferred to another subject.

The investment aid is provided in four forms to the entitled candidates – natural and legal entities entitled to trade in the Slovak Republic. The amendment introduced changes in providing the most common form of investment aid – income tax relief. Income tax relief can only be provided to investors after approved investment aid. Successful investors can now apply tax relief in up to 10 following tax periods. Yet the amount is determined from the average tax base by applying a special coefficient.

From May 1 2013, applicants for investment aid must attach several more important documents for the investment intention, in particular a description of the investment intention. Submission of the investment intention thus becomes a relatively demanding administrative issue, and more and more investors are using the services of advisory agencies that can handle the whole process for them.

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