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Slovak Republic
Futej & Partners

Crackdown on tax evasion

In late 2013, the Slovak Parliament approved an amendment to the income tax act (the Amendment). One of the objectives of the Amendment is to fight tax evasion. Some of the most interesting changes are:

- higher withholding rate/tax security;
- the right to tax Slovak tax non-residents on certain transactions;
- introduction of tax licences; and,
- tax rate for legal entities reduced to 22%.

Higher withholding rate

In an effort to prevent tax evasion and suspicious transactions, the tax withholding rate and security was increased for some states. These are states with which the Slovak Republic does not have: (a) an international double tax avoidance agreement; or (b) an international tax information exchange agreement (a non-contracting state). Effective as of March 1 2014, if a Slovak tax resident or permanent establishment located in the territory of the Slovak Republic makes payments to tax residents of non-contracting states, these payments: will be taxed 35% withholding tax or tax security (previously 19%); and, must be notified to the tax authority

More transactions will be taxed

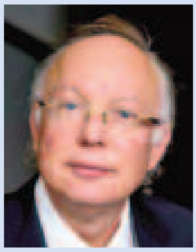
From March 1 2014, the scope of transactions which are taxed within the Slovak Republic will be expanded.

Payments for services stemming from the territory of the Slovak Republic to Slovak tax non-residents will be subject to tax, regardless of whether the services were actually rendered within the Slovak Republic. For instance, consulting services rendered by a Belize company to a Slovak company will be taxed, even if the services were rendered outside the territory of the Slovak Republic. Similarly, if a company from Lichtenstein charges a Slovak company a licence fee, then witholding tax of 35% is paid since Lichtenstein does not have double taxation treaty with Slovakia. This measure essentially affects only states with which the Slovak Republic does not have a double tax avoidance agreement. In the previous example, the licence fee is not tax deductible in Slovakia if withholding tax is not paid.

Payments directly associated with assets located within the Slovak Republic will be subject to tax. This includes mainly the following transactions: the transfer of ownership interest in companies having a registered office in the Slovak Republic; and, payments stemming from one Slovak non-resident to another Slovak non-resident. For example, this could be when a tax resident of Costa Rica transfers ownership interest in a Slovak company to a tax resident of Belize. In such a case, it would be important to find out if the Slovak non-resident has a registered office or residence in a state with which the Slovak Republic has a double tax avoidance agreement or a tax information exchange agreement. If there is no double tax avoidance agreement or tax information exchange agreement, the Slovak Republic will tax the payment through a tax security of 35%.

Income paid to a Slovak non-resident for the transfer of ownership interest in

Taxpayer type	Cost of tax licence
Taxpayer is not a VAT payer, with an annual turnover not exceeding €500,000 ($685,000)	€480
Taxpayer is a VAT payer, with an annual turnover not exceeding €500,000	€960
Taxpayer has an annual turnover exceeding €500,000	€2,880



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companies without a registered office in the Slovak Republic, but which own immovable property in the Slovak Republic with a value of more than 50% of that company's equity will be subject to tax. Income from the transfer of ownership interest in such a foreign company will be considered taxable in the territory of Slovakia. This is intended to prevent situations where, for instance, developer companies attempt to avoid being taxed on the sale of real estate in Slovakia by selling ownership interest in the foreign company owning that real estate instead of selling the actual real estate. With a few exceptions, this will only affect tax residents of states with which the Slovak Republic does not have a double taxation avoidance agreement.

Minimum tax for legal entities

Effective as of January 1 2014, all legal entities established in the territory of the Slovak Republic are required to pay a minimum tax (so-called tax licence).

The Amendment introduces three levels for payment of the tax licence.

The tax licence must be paid by the deadline for filing tax returns, and the first time it will be paid is for the 2014 tax year. A small few are exempt from paying the minimum tax, for example newly established taxpayers (they do not pay for the tax period in which they were established), and taxpayers not established to conduct business.

Reduced income tax

Effective as of January 1, the income tax rate for legal entities was reduced from 23% to 22%.

Permanent service establishment

Until the end of 2013, no concept of permanent establishment related to services was incorporated in the Slovak tax law. As of January 1 2014, should services be provided for longer than six months in a period of 12 consecutive months, they will be deemed a permanent establishment without any permanent place of business. Obviously, provisions of double tax treaties must be reviewed.

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