



NEWSLETTER 1/2018

We bring you the following topics in the latest issue:

1.	Change in the area of social insurance	1
2.	Proposed change of the Council directive on VAT	1
3.	Introduction of the insurance tax	2
4.	Changes in electronic communication	3
5.	Extension of the definition of related parties in transfer pricing starting from 2018	3
6.	Capital fund from contributions	4
7.	Accounting of non-monetary deposits and non-monetary contributions	4

1. Change in the area of social insurance

The proposed amendment of the Act on social insurance effective from 1 January 2019 brings several changes. The most significant one is the introduction of the statute of annual settlement of social insurance as an effective instrument for preventing optimisation of contributions by entities. All compulsory insurance (sickness insurance, pension insurance, old-age pension saving, unemployment insurance, solidarity reserve fund) should be subject to the annual settlement of insurance, which will be paid in advance from the effective date of the amendment, with the exception of accident insurance and guarantee insurance. Those will be managed in the same manner as before.

The annual insurance settlement in social insurance will be carried out by the Social Insurance Agency, and the amendment proposes to carry out the annual settlement for the first time in 2020 for the year 2019.

The annual settlement will apply to employees, self-employed persons, and employers. It will be carried out until 30 September of the calendar year following the calendar year, for which the annual settlement is made. If the taxpayer has an extended deadline for filing the tax return, the deadline for the annual settlement will be 31 October. The result of the annual settlement will be sent by the Social Insurance Agency to the insured person and to the employer in the form of decision, in which a potential overpayment or arrears of the insurance will be mentioned.

2. Proposed change of the Council directive on VAT

There is currently a proposal in the interdepartmental review proceeding for a Council Directive amending the Council Directive 2006/112/EC on VAT. The Directive and its related changes should be implemented in the local VAT Act with effect from 1 January 2019, but the Ministry of Finance of SR expects to move its effectiveness to a later period.



The most significant proposed changes include:

- Establishing the status of a certified taxable person - a reliable payer after fulfilling the statutory criteria. The status of a certified taxable person will be awarded by the member state of residence of the taxable person after meeting the criteria, namely the absence of a serious breach of tax and customs legislation and criminal offences related to the economic activity of the person, the demonstration of a high degree of control over operations and the flow of goods, and the proof of financial competence of the person.
- Simplification of the rules of consignment stock - unification and simplification of the mechanism for all EU countries, and only the certified taxable persons will be able to use it.
- Introduction of legal certainty for chain trades - specific rules for assigning moving delivery in transit, with these conditions being applicable only if all stakeholders in the chain are certified taxable persons.
- A final system for trading within the EU - it will be based on the principle of taxation of delivery of goods and provision of services in the target member state (where the transport of goods is finalized). In general, the supplier of the goods will be the person obliged to pay tax. However, if the purchaser of the goods is a certified taxable person, a transfer of the tax liability to the buyer shall apply.
- A so-called One-Stop-Shop (OSS) will be introduced - if the taxable person is not established in the member state where the tax is due, he/she will be able to file a tax return and pay a tax through one point of contact.

As the current proposal is still only in the interdepartmental review proceedings, it is not possible to say with certainty which adjustments will be included in the final version of the new directive and will therefore be implemented in the Slovak VAT Act and with what effective date. We will report on further developments in the following issues of the newsletter.

3. Introduction of the insurance tax

The Insurance Act is currently imposing an obligation on insurance companies to pay a levy of 8% from the insurance premium received in the non-life insurance business. The current levy in practice appears to be a non-systemic and ineffective measure, which causes application problems in practice and unequal treatment of insurers in connection with a levy based on "old" insurance contracts and "new" insurance contracts. The introduction of insurance taxation by indirect tax should eliminate such disproportions.

The difference compared to the current 8% levy on accepted insurance is that the insurance tax will cover not only the non-life but also the life insurance.

The insurance tax with the expected effectiveness from 1 October 2018 will be in principle levied and paid to the state budget by insurance companies from the insurance premium received. Insurance companies will be required to file tax returns on a quarterly basis. The tax rate for most non-life insurance businesses is proposed at 8% and 6%, the proposed rate for accident and illness insurance is 4%, and the proposed rate for the life insurance businesses is 2% and 3%.



A zero rate of insurance tax is set for insurance premiums received from compulsory contractual insurance so as to avoid double taxation, because the payment of 8% levy of the premium received from the compulsory contractual insurance is still maintained. The insurance tax should not apply to the payment of benefits from the II. and III. pillar of retirement pension scheme (pensions from retirement savings and insurance of pensions from supplementary pension savings).

In connection with this tax, it should be expected that it will be passed on to the insurance price (even in the case of life insurance) and ultimately will be borne by the policyholders.

4. Changes in electronic communication

Effective from 1 January 2018, the methods of electronic communication with the tax administrator will be adjusted. A natural person or a legal entity has been able to send documents to the financial administration electronically in three ways - using a qualified electronic signature, an ID card with a chip, or an agreement.

After 1 January 2018, legal entities won't have the option to conclude an agreement with the tax office. After the amendment of the tax code this option remains only for the natural persons and the agreements concluded before 31 December 2017 remain valid after 1 January 2018.

5. Extension of the definition of related parties in transfer pricing starting from 2018

Starting from 1 January 2018 a new definition of related parties came into effect for transfer pricing purposes. A much wider range of persons and entities is considered as related parties from 2018 compared to the situation so far.

A relatively important change is the introduction of a new term "entity", which is often used in the definition of related parties. A related party is a person or entity, which is for the purposes of consolidation a part of the consolidated unit.

The greatest changes in the definition of related parties for the purposes of transfer pricing were made to the definition of "economic and personal ties". What's new is that from 2018, also such person or an entity that does not have at least 25% share in the capital or voting rights on a person or entity, but has at least 25% share on the profit of this person or entity, is considered to be economically tied with that person or entity.

In addition, starting from 2018 it applies that if someone acts in conjunction with another person or entity in respect to the voting rights or registered capital, these voting rights and shares on registered capital of such other person will be considered as his/her own for the purposes of assessing related parties.

Other ties, as well as the ties to related parties, remain unchanged.



6. Capital fund from contributions

Amendment to the Commercial Code allowed a joint-stock company and a limited liability company to create a capital fund from contributions. In relation to the amendment to the Commercial Code, amendments were also made to the accounting procedures for entrepreneurs using double-entry bookkeeping and the MF SR measures regulating the details of individual financial statements for micro, small and large entities with effect from January 1 2018.

The capital fund from contributions is in the case of a limited liability company and a joint-stock company formed on the basis of the Memorandum of Association or on the basis of approval by the General Assembly. For the repayment of the shareholder's contribution to the capital fund, the deposit provisions shall apply appropriately and shall be deemed to be the capital fund at moment of repayment. The capital fund can be used for:

- redistribution between shareholders
- to increase the registered capital

In the event of redistribution of the capital fund between shareholders or partners, a notice on the amount of its redistribution must be published at least 60 days in advance. The capital fund may not be redistributed, if the company is in crisis or if it would fall into crisis as a result of the redistribution.

It's required to specify in the notes of micro and small accounting entities whether the accounting entities created the capital fund from contributions, in the notes of large accounting entities it's required to provide other information as well.

According to the amendment to the accounting procedures the capital fund from contributions at the beneficiary at the time of its creation is debited on the account 353 - receivables related to unpaid share capital and credited on the account 413 - other capital funds. Use of the paid contribution is accounted for on the basis of the decision of the General Assembly at the debit of the account 413 and at the credit of the corresponding liabilities account. In the depositor's accounts, the paid contribution in the recognized value is accounted for in the financial investment account and credited on the account 367 - Payables from subscribed unpaid securities and deposits. The difference between the recognized value of the asset and the carrying value of the asset is reported by the company according to its nature on other financial expenses or income.

7. Accounting of non-monetary deposits and non-monetary contributions

The amendment of procedures has also brought changes in accounting of non-monetary deposits and non-monetary contributions:



- The goodwill/ negative goodwill is accounted for in the accounting of the recipient of the deposit, when calculating the goodwill the recognized value of the deposit is added to the value of the paid contribution to the capital fund from contributions.
- A financial investment due to a company's deposit as a non-monetary deposit, which is not a deposit of the company is accounted for on the appropriate account of the financial investment, and on this account it's necessary to check individual elements on analytical accounts forming other contributions and on the account 367 - Payables from subscribed unpaid securities and deposits.

This Newsletter has been produced by TPA.

Best regards,
Your TPA team

Contact:

TPA Slovakia
Pribinova 25/4195
811 09 Bratislava

Letná 27
040 01 Košice

Phone: +421 (02) 57 351 111

www.tpa-group.sk
www.tpa-group.com

If you wish to receive regular updates, subscribe to our [newsletter](#).

IMPRESSUM Information contained in this document is for general information purposes only. If you decide to use it, we recommend that you do so based on professional consulting in order to examine all aspects of the case in question. This document does not constitute professional consulting, and therefore TPA may not be held accountable for any damages incurred as a result of using the information contained in this document.

Copyright © 2018 TPA, Pribinova 25/4195, 811 09 Bratislava
All rights reserved.