Face to Face Business

NEWSLETTER Special Edition October 2019

In the special issue of the Newsletter, we bring you the following topics:

1. An overview of the most important income tax changes

As we informed you in the previous issue of the Newsletter, the National Council of the Slovak Republic (NRSR) approved, in the third reading, the government's proposal to amend the Income Tax Act on 11 September 2019 and the parliamentary proposal to amend the Income Tax Act on 18 September 2019.

Please note that this amendment not only approves amendments to the act effective as of 1 December 2019 and as of 1 January 2020, but also amendments to the act, the efficacy of which has been postponed until 2021 and 2022; for example, the provisions concerning micro-taxpayers will only be effective as of 1 January 2021. However, some changes to the act shall be applicable when filing the tax return for the tax year 2019. For this reason, attention should be paid to the transitional provisions of the approved act.

The most important approved changes to the corporate taxation as well as in the area of common provisions are listed below:

Effective as of 1 January 2020

- introduction of progressive corporate taxation – the corporate income tax rate in corporations with turnover up to EUR 100,000 shall change from 21% to 15%, even in the case of a special tax base for moving the taxpayer's assets, the taxpayer's departure or moving the taxpayer's business abroad;
- the term "non-contractual state" shall be replaced with "non-cooperating state"; definition of contribution shall be added;
- new depreciation group 0 for electric vehicles with a depreciation period of 2 years (applicable for filing a tax return after 31 December 2019, i.e., already for filing the tax return for the 2019 tax period);
- adjustment of the terms and conditions for exemption of income (revenues) of a legal entity/corporation from the sale of shares (Section 13c);
- adjustment of the terms and conditions for tax loss carry forward, namely the abolition of the straight-line basis of the tax loss deduction and the extension of the deduction period to 5 years; in comparison with a micro-taxpayer who does not have a restriction on the amount of the carry forwarded tax loss, other taxpayers can only deduct a tax loss of up to 50% of the calculated tax base from which the loss can be deducted;

- increasing the threshold for the obligation to pay corporate income tax advances from EUR 2,500 to EUR 5,000 and simplifying the calculation of the tax liability for previous taxation period;
- adjustment of expenses, which are part of the tax base after payment, e.g., abolition of the limitation of the intermediation fee up to 20% of intermediated trade value at the recipient of the service, extension of expenses incurred for advisory services to include product classification code 70.22, deletion of expenses for obtaining standards and certificates from this provision; extension to include flat-rate reimbursement costs for recovery of claims, contractual penalties, late fees, interests on late payment, which are currently not included in tax expenses at all;
- extending the provision to also include 'wasted investment' in the tax base in case of long-term financial assets;
- introducing the content of the notice on the adjustment of the tax base of related party;
- changing the terms and conditions for reducing the tax base after the period in which the tax base was increased by overdue liabilities;
- adding the provisions concerning adjustments to the tax base on the assignment and write-off of a receivable;
- adjustment of provisions for the creation of adjustment to receivables; a new definition of non-statute barred receivables;
- changing the terms and conditions for the creation of a reserve for forestry activities;
- abolition of the provision which considered the technical improvement, operation, repair and maintenance of movable property and immovable property provided based on a borrowing agreement as non-taxable expense;
- extending the range of entities to which food can be returned free of charge due to expiry or shelf-life;
- increasing the tax advantage for taxpayers carrying out research and development (deduction of R&D expenditure from the tax base decreased by tax loss); super deduction, up to 200%;
- adjustments in income of taxpayers with limited tax liability arising from sources in the territory of the Slovak Republic;
- introducing clearer rules to avoid the use of hybrid inconsistencies due to different tax assessments of financial instruments and taxable entities in different countries, leading to a reduction of tax liability;
- changes to the withholding tax provisions;
- adjustments of the provisions on the avoidance of double taxation in the case of hybrid transfers;
- rounding changes;
- changes in monetary and non-monetary benefits between the holder and the healthcare provider.

Effective as of 1 January 2021

- a new concept of micro-taxpayer; special preferential tax provisions applying to micro-taxpayers shall be introduced;
- for example, special provisions shall be introduced for micro-taxpayers in the way of depreciation of assets, including adjustments to receivables in the tax base;
- advantageous conditions for the deduction of the tax loss shall also be introduced for micro-taxpayers, namely the abolition of the straight-line basis of the tax loss deduction and the extension of the period for

its deduction to 5 years, without limiting the amount of the deducted tax loss in the relevant tax period; such a taxpayer may deduct a tax loss of up to the calculated tax base in the tax year in which they wish to deduct it;
- changes in taxpayer's registration and introduction of automatic taxpayer registration by tax authorities;

In the area of personal income tax, these changes shall include:

Effective as of 1 January 2020

- introducing a reduced income tax rate of 15% for business individuals with income from business and other self-employment up to EUR 100,000;
- increasing the non-taxable portion of the taxpayer's tax base to an amount equal to 21 times the amount of the applicable subsistence minimum (from the current 19.2 times);
- a change in the range of income from which income tax advances are paid by a business individual with an active income and an increase in the threshold for the obligation to pay advances from EUR 2,500 to EUR 5,000;
- extending the income tax exemption for defined types of in-kind income (employee education, medical preventive checks); change in grossing up of in-kind income;
- increasing the amount of employee exempted in-kind payment in order to ensure accommodation by an employer, from EUR 60 to EUR 100;
- allowing an employee to submit by electronic means an application for the annual calculation of tax advances based on mutual agreement with an employer;
- introducing the possibility for an employer to issue and deliver to an employee, based on mutual agreement, certain types of documents by electronic means;
- terminating the employee obligation to annually sign a declaration to apply the non-taxable portion of the taxable person's tax base and tax bonus.

Effective as of 1 January 2021

- a change in the calculation of non-monetary benefits provided to an employee from an employer as a result of ensuring transport to the place of work and back. The proposal shall reflect practical experience in cases where motor vehicles were not fully occupied in transport, but employees bore the costs for such vacancies without it being their fault;
- introducing the same provisions for micro-taxpayers as those specified for legal entities, as well as for business individuals with income from business and self-employment.

Effective as of 1 January 2022

- extension to include tax exemption for non-cash benefits provided to employees by employers up to EUR 500)

2. Changes in the VAT Act based on parliamentary proposals

As in the case of the amendment to the Income Tax Act, the National Council of the Slovak Republic (NRSR) approved two parliamentary proposals amending the VAT Act in their third reading during September 2019. Both proposals concern the extension of Annex 7 of the VAT Act, which defines products subject to a reduced 10% VAT rate.

In accordance with these parliamentary proposals, Annex 7 shall be extended newspapers, magazines and periodicals with certain restrictions, as well as selected types of food, such as fruits, vegetables, bread, etc. The mentioned products will be subject to a reduced 10% VAT rate effective as of 1 January 2020.

This Newsletter is a product of TPA.
Best regards,

Your TPA team

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