



NEWSLETTER 3/2016

In the newsletter you will find the following topics:

1.	The Government re-enacts tax on dividends.....	1
2.	The Government cancels health insurance on dividends	1
3.	Increase in social and health insurance payments.....	2
4.	Reduction to the corporate income tax	2
5.	Higher sanctions for international tax avoidance	2
6.	If tax authorities retain excess VAT deduction for a long period of time, you will be entitled for interest	2
7.	Lump sum expenses of sole traders will be raised.....	3
8.	Electronic mailboxes	3
9.	Application of fair value for measurement since 1 January 2016	3
10.	Changes in payroll accounting in 2017	4

1. The Government re-enacts tax on dividends

The amendment to the Income Tax Act, which is currently under preparation, re-enacts tax on profit sharing (dividends) for individuals, with a 7% tax rate. Pursuant to this amendment, dividends will no longer be exempt from tax, including those received by employees who do not own shares in the Company's registered capital.

The tax on dividends also applies to local legal entities, however, only if dividends are received from a taxpayer of a non-treaty country, i.e. a country not having a tax treaty signed with the Slovak Republic. Subject to the taxation will be both dividends and other income paid out by a local legal entity to a taxpayer from a non-treaty country. In such case, the proposed tax rate is 35%.

The aforementioned provisions are to be applied to dividends on profits generated for periods starting after 1 January 2017, however, in certain cases, tax can be charged on dividends received by individuals from profits recognised by December 2003.

2. The Government cancels health insurance on dividends

In connection with tax on dividends, the Government proposes to cancel the obligation to pay health insurance on dividends paid from profits generated after 1 January 2017.



3. Increase in social and health insurance payments

Along with the proposed cancellation of health insurance on dividends and reduction of tax rates on corporate income tax, the Government proposes to cancel the ceiling for health insurance payments; the funds collected this way are to be used for renovation of hospitals and technical equipment.

Additionally, the bill assumes increasing the maximum assessment base for social insurance payments from the present 5-times to 7-times the average wage in Slovakia. The maximum assessment base of 2016 amounting to EUR 4,290 would thus increase by almost EUR 6,200.

4. Reduction to the corporate income tax

A positive change for legal entities is the planned reduction to the corporate tax from the current 22% to 21%. The regulation aims to improve the business environment and increase the motivation to pay taxes.

5. Higher sanctions for international tax avoidance

Aggressive tax planning, in particular in the case of transfer pricing, will be punished more severely now. Besides the existing sanctions in the tax order, a special increase in sanctions is being implemented for taxpayers who are intentionally avoiding tax liabilities through transfer pricing. Should the taxpayer's conduct lack any economic rationale and result in intentional tax avoidance, the government proposes a doubling of such sanctions.

However, taxpayers will be able to avoid double sanctions, provided they acknowledge their failure and pay the difference of the assessed tax within the set deadline.

6. If tax authorities retain excess VAT deduction for a long period of time, you will be entitled for interest

One of the planned changes in the Value Added Tax Act, is the award of interest on retained excess VAT deduction during an unreasonably long tax inspection.

It is proposed that the interest on excess VAT deduction is awarded to the taxpayer, provided the tax inspection lasts more than six months from the date on which the excess VAT deduction should be refunded. The interest rate shall be calculated as a percentage (at least 1.5%) of the amount of the excess VAT deduction until the date of the refund thereof.



7. Lump sum expenses of sole traders will be raised

Based on the proposed change, the cap of lump sum expenses will increase up to 60% of income from business and other self-employment activity. The maximum annual expense threshold changes as well, up to EUR 20,000 (compared to the current EUR 5,040). The changes also apply at the same level to income from use of a work and artistic performance.

8. Electronic mailboxes

Under the Act No. 305/2013 Coll. on E-Government, no later than on 1 January 2017, legal entities will be obliged to communicate with public authorities through electronic mailboxes.

Every business company recorded in the Commercial Register will have an electronic mailbox established automatically and free of charge. The mailbox will be made available to each company through www.slovensko.sk website.

To be able to log on to the portal and enter the electronic mailbox, statutory representatives of the companies need to have ID cards with an electronic chip and a security personal code (BOK). Foreign citizens need a residence document with an electronic chip and a security personal code (BOK).

The electronic communication is intended to fully replace the traditional sending of hardcopy documents. There are two methods of delivery: either traditional or personal delivery.

9. Application of fair value for measurement since 1 January 2016

An accounting unit most often measures its assets and liabilities as at the date of its incorporation or as at the reporting date. Since 1 January 2016, replacement cost shall not be used for valuation any longer, however, the scope of application of fair value in valuation of assets and liabilities is extended.

Under the new rules, in addition to determining the fair value from known market prices and/or expert opinions, fair value can now be determined by using a valuation model. Use of valuation models considerably extends the possibilities of determining the fair value and improves flexibility of analyses underlying the process of determining fair value, which can further improve cost-effectiveness compared to obtaining fair value based on an expert's opinion. This can be expedient e.g. for mergers and acquisitions, and it can also result in time saving when determining fair values of assets and liabilities of dissolving companies.

The Act permits that valuation models are based on market, expense and income approach, which gives scope for various combinations.



10. Changes in payroll accounting in 2017

Minimum wage

Since 1 January 2017, minimum monthly wage is changed from EUR 405 to EUR 435. Thus the lowest possible gross hourly rate for the first degree of work difficulty under a 40-hour working week would equal to EUR 2.5. That also applies to the lowest possible hourly rate for agreements on work performed outside employment relationship. There will also be an increase in extra pay for working night shifts, as it is calculated as 20% of the hourly minimum wage, i.e. 20% of EUR 2.50, which is EUR 0.50 per each hour worked in a night shift.

Therefore, in 2017, employees paid at minimum wage will earn by EUR 30 more (gross). The expense incurred by the employer of the employee paid at minimum wage will be approximately by EUR 40 higher compared to 2016.

Travel Allowances Act

Presently, negotiations are pending on amendment of the amounts of travel allowance. The proposed amounts of travel allowance for the existing time periods are:

- EUR 4.5 for time periods between 5 - 12 hours,
- EUR 6.7 for time periods between 12 - 18 hours,
- EUR 10.3 for time periods above 18 hours.

This amendment will trigger a change in meal voucher amount, which is defined as 75% of the basic meals allowance. It means 75% of EUR 4.5, i.e., minimum EUR 3,375.

The following so far remains unchanged in 2017:

- Subsistence minimum – EUR 198.08,
- Tax bonus – EUR 21.41,
- Non-taxable portion per taxpayer – EUR 316.94 per month,
- Tax 19% on tax base up to EUR 2,918,53 per month,
- Tax 25% on tax base exceeding EUR 2,918.53 per month,
- Student's earning which is not subject to pension insurance payments – EUR 200.

In case of any further amendments, we will keep you informed.



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Best regards

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