TGC

Corporate Lawyers

Doing Business in Slovakia

January 2012

PREFACE

This guide on Doing Business in Slovakia has been prepared by TGC Corporate Lawyers and is designed to provide important information to those contemplating investing or doing business in Slovakia.

Whilst every effort has been made to ensure accuracy, information contained in this guide may not be comprehensive and recipients should not act upon it without seeking professional advice.

Except where otherwise stated, the fiscal rates included in this publication are those in force on 1 January 2012.

CONTENTS

1 INTRODUCTION

1.1 Geography

Location

Slovakia is located in Central Europe. It is a land-locked country with mountainous terrain to the north and central areas, and lowlands in the south. The Czech Republic, Austria, Hungary, and Ukraine all border Slovakia.

Area

Slovakia has an area of 49,035 square kilometres.

Climate

The climate is varied with relatively hot summers and cold winters, especially in the mountains.

Terrain

Slovakia is a mountainous country with its highest peak, Gerlachovský štít (2,655m), situated in the High Tatras.

Time zone

Slovakia uses Central European Time (GMT +1), which is 1 hour ahead of UK and 6 hours ahead of New York (EST + 6).

1.2 People

Population

The population numbers approximately 5.4 million.

Ethnic Groups

The ethnic groups in Slovakia are: Slovak (85%), Hungarian (9.7%), Romany (1.7%), Czech (0.8%), Ukrainian, Russian, German, Polish and others (2%).

Religion

Roman Catholic (68.9%), Evangelical (6.9%), Greek Catholic (4.1%), Reformed Christian (2%); undetermined (2.2%), atheist (13.7%).

Language

The official language is Slovak. Many people also speak a second language, including English, German, French or Russian.

1.3 Government

Government Type

Slovakia is a parliamentary republic. The supreme law of Slovakia is the Constitution passed on 1 September 1992, and ratified by a national referendum. The government system of the Slovak Republic is based on the separation of and balance between the legislative, executive, and judicial powers.

The Government of the Slovak Republic is the head of the executive. It is made up of the Prime Minister, presiding over it, and Deputies and Government Ministers. The Government is appointed by the President of the Slovak Republic on the recommendation of the Prime Minister. For its policy and administration the Government is responsible to the National Council of Slovak Republic (the Slovak parliament).

The judicial authority is vested in the independent courts and tribunals. The Supreme Court is the highest body supervising the judiciary.

Capital

The capital of Slovakia is Bratislava with a population of approximately 460 thousand inhabitants. It is situated downstream from Vienna on the River Danube close to the Austrian and Hungarian borders.

Administrative Division

Slovakia is divided into 8 Higher-Tier Territorial Units [*vyšší územný celok*]. There are 79 districts [*okres*].

Political Situation

In the summer of 2010, the vote was won by SMER-SD, but a majority coalition was formed by SDKÚ-DS as leader of the coalition, together with SaS, Most-Híd and KDH. From 8 July 2010 the government is formed by the SDKÚ-DS-led Cabinet of PM Iveta Radičová. The opposition currently represented in Parliament includes the left-wind SMER-SD and conservative/centre-right Slovak National Party (SNS). As a result of the government breakdown in 2011 the preliminary government election shall be held on 10 March 2012.

1.4 Economy

GDP real growth rate	2.3% (2010)
Inflation rate (consumer prices)	1.0% (2010)
Unemployment rate	14.5% (2010)
Export countries:	Germany, Czech Republic, Austria, Italy, Poland, Hungary, France, Great Britain

Labour Force

One of the major factors drawing foreign investment to Slovakia in recent years is the availability of highly skilled employees, with quality of work matching developed countries' standard, but at a much lower cost.

Unemployment

The current unemployment rate is about 14.5% and is slowly decreasing.

Currency

The official currency is the euro since Slovakia joined the Eurozone as of January 1, 2009. Before joining the Eurozone, the Slovak crown was the official currency in Slovakia. The EUR-SKK conversion rate was set to SKK 30.1260 per EURO.

Public holidays

- 1 January Establishment of Slovakia
- 6 January Epiphany (the Three Kings and Christmas holiday for orthodox christians)
- Good Friday varies
- Easter Monday varies
- 1 May Labour Day
- 8 May End of World War II
- 5 July St Cyril and St Methodius Day
- 29 August Slovak National Uprising Day
- 1 September Constitution of the Slovak Republic Day
- 15 September Our Lady of Sorrows Day
- 1 November All Saints' Day
- 17 November Velvet Revolution Day
- 24 December Christmas Eve
- 25 December 1st Christmas Day
- 26 December 2nd Christmas Day

2 BUSINESS ENTITIES AND ACCOUNTING

2.1 Companies

The Slovak legal system allows for the establishment of a wide range of commercial legal entities which include the following:

- **Limited liability company** -- foreign capital participation allowed up to 100%.

The Slovak limited liability company [*s.r.o.*] is the most popular type of commercial legal entity as it has limited liability, flexibility, and simplicity. The limited liability company is mainly regulated by the Commercial Code and is easy to establish. The company is managed by one or more directors [*konatel*]. A supervisory board [*dozorná rada*] is optional.

The minimum initial capital is EUR 5.000 and the lowest permitted value of a share is EUR 750. A foreign investor may contribute to the initial capital in cash or in-kind.

Corporations and individuals may establish a limited liability company. The main document governing the internal administration and limitations of the company is the memorandum/articles of association, which sets out basic information relating to the company including the name, registered seat, activities, amount of registered share capital, shareholders, etc. Registration of a limited liability company is achieved by entry into the Commercial Registry maintained by the relevant Commercial Registry Court.

- **Stock company** -- foreign capital participation allowed up to 100% except for certain types of activity.

A stock company [*akciová spoločnosť or a.s.*] is in many ways similar to a limited liability company, with the following main differences:

- The minimum initial capital is EUR 25.000;
- In addition to a management board, a supervisory board must be appointed;
- Bearer shares may be issued.

A foreigner can undertake all business activities using the same legal entities available to Slovak nationals including:

- **Limited partnership** [*komanditná spoločnosť – k.s.*], with the combination of both limited, as well as unlimited liability, depending on the partners to the company.
- **Unlimited liability company** [*verejná obchodná spoločnosť – v.o.s.*], usually used for smaller scale business.
- **Sole traders**, registered with the Trade Register [*živnostenský register*], usually used for business undertaken by an individual.

2.2 Branches

Foreign businesses may establish a branch office in Slovakia for the purpose of carrying out business activity. The business activity of a branch office must be generally similar to the entity's activities.

A branch office shall:

- register with the Slovak Commercial Registry;
- maintain accounting records in compliance with Slovak accounting law;
- comply with tax and other laws applicable to Slovak entities.

2.3 Audit and Accounting Requirements

Slovak accounting law sets out regulations and principles for accounting and financial reporting. Entities must comply with the format for financial statements specified under the accounting law. An annual report by the board of directors of the company is also required in certain cases. The accounting records must be held at the company's registered office or at the office of an authorised independent accounting service provider.

Compliance with accounting regulations must be maintained at all times. Even though these are broadly similar to international standards, local expert assistance is required.

An audit is required for certain limited liability companies and all stock companies, banks, and insurance companies.

2.4 Filing Requirements

All companies shall file financial statements and an annual report with the Commercial Registry maintained by the relevant Commercial Registry Court.

The audit opinion, where applicable, is also filed with the Commercial Registry. Slovak law requires publication of the financial statements and audit opinion in the Business Gazette [*Obchodný vestník*].

3 FINANCE AND INVESTMENT

3.1 Types of Investment

The types of investment in Slovakia are far ranging and include acquisition of existing companies, setting up a private or public limited company, purchase of shares on the Bratislava Stock Exchange, purchase of real estate, and providing venture capital to the growing entrepreneurial sector.

Slovakia is a member of the EU, OECD, WTO, and NATO. The majority of exported goods go to OECD/EU member states.

Slovakia has been one of the most successful economies in the world over the last few years, and there are still many opportunities available.

3.2 SARIO

SARIO, Slovenská agentúra pre rozvoj investícií a obchodu (Slovak agency for investment and commerce development: www.sario.sk) is the main government organization assisting investors in Slovakia. Its mission is to increase the flow of foreign investment into Slovakia and provide foreign investors with comprehensive information on the investment environment and guidance throughout the initial stages of the investment process.

3.3 Pro-investment Policy

Starting with the economic reforms during the last 15 years, the Slovak government's goal is to present foreign investors with an environment which is favourable to them.

Large investors have entered into sectors such as the automotive industry, electronics and technologies, thereby proving that Slovakia is a very good destination for foreign direct investment.

3.4 Incentives

Slovakia has several natural incentives for investors which include access to adjacent markets, a skilled and comparatively cheap labour force, and a relatively open market.

One of the major benefits for investors is the 19% flat tax rate regime, and lack of tax on dividends.

4 EMPLOYMENT REGULATIONS

4.1 Industrial Relations

The system of industrial relations in Slovakia is regulated by the Labour Code which provides minimum guarantees for employees, such as holidays, working hours, minimum notice, dismissals and employment equality. Any employment contract provision which is contrary to the Labour Code is automatically superseded by the appropriate provision of the Labour Code.

4.2 Contract of Employment

Under the Labour Code all employees should be given a written agreement setting out the details of their contract such as type of work, place of the work, and remuneration . The Labour Code provides that the parties can conclude the following types of employment contracts:

- indefinite
- definite

In addition, the Labour Code provides for the opportunity to conclude agreements for the performance of specific tasks, mostly for a shorter period of time.

4.3 Health, Safety and Welfare at Work

Minimum standards regarding health, safety and welfare at work are required by the Labour Code and related regulations. Health and safety at work is enforced by inspections.

4.4 Minimum Notice

Minimum notice periods exist for the termination of employment contracts. Notice periods are determined by the length of service for the employer. For example, for an indefinite term contract the minimum notice period is two months (in case of service exceeding one year). However in relation to employees dismissed due to the employer's organizational changes the specific minimum notice period shall apply. In such case the minimum notice period is two months (if the service exceeds one year) and three months (if the service exceeds five years).

4.5 Redundancy Payments

Statutory redundancy payments apply to employees dismissed due to the employer's organizational changes. The amount of a statutory redundancy payment depends on the length of service and is usually 2 - 3 months' salary. The employee is entitled to statutory redundancy payments solely under condition of termination of the employment agreement by the mutual agreement on termination.

4.6 Protection of Employment

Employers are required to notify the appropriate labour office of a mass redundancy situation 30 days prior to issuing of notices to their staff. Additionally, the employer, in co-operation with the representative of employees (or trade union), should prepare specific regulations regarding the proposed redundancies. Also, negotiations with the appropriate labour office must be held in order to avoid or minimize such redundancies.

4.7 Transfer of Undertakings

The Labour Code provides that employees' rights are automatically transferred to the new employer in the event of the transfer of ownership of a business. The new employer and the old employer have notification duties towards the employees relating to transfer of an undertaking.

4.8 Dismissal

The Labour Code provides protection for employees from being unfairly dismissed from their jobs. A dismissed employee can file a claim with a court for reinstatement.

4.9 National Minimum Wage

The national minimum wage from 1 January 2012 is EUR 327,20 per month.

5 TAXATION

The Slovak tax system is comprehensive and tightly regulated.

5.1 General Structure

Each tax is regulated by separate legislation which is supplemented by ministerial decrees.

The tax system is comprised of the following main taxes:

- corporate income tax (CIT)
- personal income tax (PIT)
- value added tax (VAT)
- excise duty
- local taxes

5.2 Corporate Income Tax

Each company having its registered office or its place of actual administration in the territory of the Slovak Republic; the place of actual administration shall be the place, in which management and business decisions are taken by statutory and supervisory bodies of the legal entity is payable on worldwide taxable income, as a resident. Non-resident companies are taxable only on income arising in the Slovak Republic. The current rate of corporate income tax is 19%.

The tax base is generally the accounting result (as reported in annual statement), adjusted for tax purposes. An coporate income tax shall be commonly filed within three months after balance sheet date. The deadline can be extended by next three or six months upon announcement to tax office.

Although corporate income tax rates are fixed by reference to a calendar year, taxpayers may choose an alternative financial year.

- **Losses**

  Since 2010 tax losses may be carried forward for up to seven years starting with the tax period immediately following the tax period in which the tax payer reported a tax loss. The tax loss may be utilised against taxable profit arising in any of these years.

- **Tax depreciation**

  Tax depreciation rates are prescribed by law by reference to the type of asset.

- **Transfer Pricing**

  Slovak transfer-pricing legislation is based on OECD standards and permits transfer pricing adjustments between the related parties of cross-border transactions. The Slovak tax authorities are showing an increased interest in using transfer-pricing investigations against multinational entities operating in Slovakia.

5.3 Personal Income Tax

- **General**

A person who is resident in Slovakia is subject to unlimited tax liability on worldwide income and capital gains.

Individuals who are not resident in Slovakia are subject to tax only on income and capital gains earned in Slovakia.

For individuals who are not resident in Slovakia, their income tax position may be subject to a double taxation treaty, if applicable.

Tax is levied on total income with certain sources of income being exempt.

- **Rates**

The current rate of personal income tax is 19%.

- **Administration**

A personal income tax return must be submitted unless the income is taxed through a final withholding tax, or the person is not subject to personal income tax, or the employer arranges annual tax reconciliation. The annual tax return together with any tax is due on or before 31 March of the year following the year of assessment.

- **Taxation of Savings Income**

Interest income on cash deposits, bank accounts, and other savings is taxed at a 19% flat rate for individuals.

5.4 Social Security

The current rates of social security contributions are set out in Appendix 2.

5.5 Indirect Taxes

- **VAT**

As in most other states in the EU, Slovakia imposes value added tax (VAT) on the consumption of goods and services. In general terms VAT is payable by the ultimate consumer and businesses are responsible for the administration and collection of tax.

If a company is registered for VAT purposes it is entitled to deduct input tax from output tax, so that the ultimate burden falls on the consumer. If input tax exceeds output tax it may be set off against future VAT liabilities or reclaimed from the tax authorities. The general rule is that VAT returns are required on a monthly basis, however, in certain circumstances they may be filed on a quarterly basis.

There are at present two rates of VAT: 20% and 10%, with the standard rate being 20%. In case of sale of goods or services, VAT is calculated on the sales price. With the import of goods, VAT is calculated on the customs value plus customs duty and excise tax. Certain goods and services are exempt from VAT.

- **Customs Duties**

Slovakia is a part of the EU customs union. The import of goods into Slovakia is subject to the same rules as import into any other EU country.

In case of trade with non-EU countries customs duties arise on the customs value of many imported goods. The customs value includes costs such as transport, packaging, and insurance etc. The calculation of customs duties is complex and dependent on individual circumstances.

5.6 Inheritance and Donation Tax

Both taxes were abolished as of 1 January 2004.

5.7 Local Taxes

Real estate property (land, buildings, non-residential and residential premises) are subject to local taxation. The principal rates are:

- land — 0.25% of tax base (value of the land)
- buildings — EUR 0.033 m^2 / year
- non-residential and residential premises — EUR 0.033 m^2 / year

All figures are maximums settled by the Act No. 582/2004 Coll. on local taxes and local charges for municipal and minor construction waste as amended. Local authorities may impose lower rates by the local regulations.

Other local taxes include motor vehicle tax, slot machine and vending machine tax, dog tax, market-trader duty, nuclear installation tax and various other local charges.

5.8 Double Taxation Avoidance Treaties

Slovakia has entered into Double Taxation Avoidance Treaties with an extensive number of countries. The Double Taxation Avoidance Treaties provide for the tax treatment of both individual and corporate operations across Slovak borders. Efficient tax structuring must take into account the provisions of the relevant Double Tax Avoidance Treaty.

Interest, royalties and interest/revenues derived from participation certificates, deposit certificates and deposit letters payments are subject to withholding tax in Slovakia. The basic rate of withholding tax is 19%. These rates are usually lowered by a double tax treaty if the recipient holds a certificate of tax residency. Most of the double tax treaties provide for 5%, 10% and 15% rates, although in some cases a 0% rate is also applicable. Slovakia has also implemented the Parent–Subsidiary Directive and Directive on Interest and Royalty Payments.

5.9 Tax Planning

There are opportunities for advantageous tax planning. Also, significant tax efficiencies for foreign individuals may arise from careful remuneration structuring.

Slovakia is a complex environment in fiscal terms. We provide a wide range of specialist services to ensure timely and accurate compliance.

APPENDIX 1

Double Taxation Agreements

Slovakia has signed Avoidance of Double Taxation Treaties with 61 countries (as of 30 September 2011). All treaties follow the OECD model.

Treaty tax rates (%) with Slovakia´s main trading partners

Country	Dividends*	Interest	Royalties
Austria	10	0	5 / 0
Belgium	5 / 15	10 / 0	5
Cyprus	10	10 or 0	5 / 0
Czech Republic	5 / 15	0	10 / 0
France	10	0	5 / 0
Germany	5 / 15	0	5
Greece	19	10 / 0	10 / 0
Hungary	5 / 15	0	10
Ireland	0 / 10	0	10 / 0
Italy	15	0	5 / 0
Latvia	10	10 / 0	5
Lithuania	10	10 / 0	10
Luxembourg	5 / 15	0	10 / 0
Malta	5	0	5
Netherlands	0 / 10	0	5
Poland	5 / 10	10 / 0	5
Russia	10	0	10
Slovenia	5 / 15	10	10
Switzerland	5 / 15	10 / 0	5 / 0
United Kingdom	5 / 15	0	10 / 0

APPENDIX 2

Social Security Rates:

Fund	Employee %	Employer %
Retirement *	4.0	14.0
Disability *	3.0	3.0
Sick leave	1.4	1.4
Unemployment	1.0	1.0
Contribution into SIC Reserve Fund	0.0	4.75
Guarantee	0.0	0.25
Accident	0.0	0.8
Medicare	4.0	10.0
Total	**13.4**	**35.2**

CONTACT DETAILS

TGC CORPORATE LAWYERS

TGC Corporate Lawyers is an international corporate law firm founded in 1976. Our aim is to provide constructive and cost effective advice and assistance to clients.

We act for some of the world's leading companies, as our lawyers are rooted in the local business environment whilst understanding the international commercial environment. We offer a breadth of services including corporate, M&A, litigation, finance, real estate and tax advice that is combined with a deep understanding of industry sectors such as financial services, real estate, FMCG, pharmaceuticals, manufacturing, and companies involved in international trade. Through our network of offices in Central Europe we are able to provide clients with expert, local knowledge throughout Poland, and the Czech and Slovak Republics.

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