Slovakia proposes changes to tax law

The Finance and Budget Committee of the National Council of the Slovak Republic recently proposed some changes to the Slovak Income Tax Act.

If approved, the majority of the proposed changes would come into effect on 1 January 2014. This Alert summarizes the most relevant direct tax amendments.

Corporate income tax rate decreased

Effective 1 January 2014 the corporate income tax rate will be reduced from 23% to 22%.

Tax losses carried forward

The period for which tax losses can be carried forward would be reduced from seven to four years. In addition, it is proposed that the amount that can be used in a year will be capped at one quarter of the tax losses carried forward. It is proposed that the new rules would also apply to losses incurred prior to 2014.

Taxpayers with substantial tax losses carried forward can consider accelerating taxes in order to utilize as much of their existing losses in 2013 as possible. Opportunities to accelerate taxes may include sale and lease back, taxable merges, a change of inventory valuation method, and suspension of depreciation, among others.

Stricter transfer pricing (TP) deadlines and enforcement

The amendment also shortens the deadline for taxpayers to present the TP documentation upon the Tax Authority's request from 60 to 15 days. In addition, the Tax Authority may demand TP documentation even without initiating an official audit.

Service permanent establishment (PE)

The amendments reintroduce the concept of a service PE into Slovak tax legislation. In line with the new rules, a service PE arises in cases of the provision of services (including consultancy and management services) by a nonresident taxpayer.
or through their employees in Slovakia, where the activities are carried out during a period or periods exceeding six months in total, in any consecutive twelve-month period.

Accordingly, companies performing their activities in Slovakia under similar structures should revisit and review their current set up to in order to mitigate a potential PE risk.

Capital gain exemption on share transfers

In connection with the taxation of income from the transfer of shares between two nonresidents, it has been proposed that such income would not be taxable in cases where both the transferor and the transferee are tax resident in the EU.

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