

Dear Clients and Business Partners,

allow us to inform you through this year's Tax News on the tax news for 2017. This includes, for example, the setup of digital data boxes, reduction of corporate income tax rate, reverse charge for construction activities, increase of lump sum expense deductions for self-employers and other tax interesting points.

We believe that the reported pieces of information will be interesting and valuable for you. Should you have any questions, please, do not hesitate to contact us whenever you like.

With best regards,

LERIKA Team

COMPENSATION FOR THE WITHHOLDING OF AN EXCESS VAT DEDUCTION DURING A TAX AUDIT

The VAT amendment has introduced the so-called interest from an excess VAT deduction into the tax law. A taxpayer is entitled to receive the interest in case the excess VAT deduction was withheld as a result of a tax audit.

If a tax authority initiates a tax audit within the VAT refund term and the excess VAT is not paid by the end of 6 months since the last date of the VAT refund term, interest from the excess VAT starts accruing to the taxpayer. The interest rate amounts to the double of the ECB rate applicable on the first day of the calendar year for which the interest is calculated. The minimum interest rate is set at 1.5%.

The interest is calculated from the amount of the excess VAT deduction for each day in excess of 6 months since the end of the VAT refund term until the actual payment.



The new procedure for charging interest from excess VAT deductions will apply to tax audits initiated after 1 January 2017 as well as those that had not been concluded as of that date.

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REVERSE CHARGE FOR CONSTRUCTION ACTIVITIES

Since 1 January 2016, the reverse charge treatment has been introduced in the VAT law via provisions of Article 69 Section 12 Subsection j). The main condition for application of the reverse charge treatment to construction activities is correct classification of construction activities based on CPA nomenclature. In practice, this can be an issue as taxpayers often do not know how to correctly classify a construction activity and out of prudence serve an invoice including VAT.

The VAT law amendment proposes introduction of a new concept when applying the reverse charge treatment to construction activities. This should increase certainty to both the supplier as well as the customer.

If a supplier has a justifiable reason to assume that the service being provided is subject to the reverse charge treatment, he or she shall provide a clear reference on the invoice to the reverse charge regime, making it clear that the supply recipient is liable to declare the VAT.



CHANGE TO VAT CONTROL STATEMENT

In accordance with the amendment of the law No. 222/2004 Coll., on VAT, as of 1 January 2017 a new version of the VAT Control Statement has been introduced. The new form shall be used for the first time in connection with the filing of a VAT return for January 2017, which is due in February 2017.

In accordance with Article 78 Section 2 Subsection a) of the VAT law applicable since 1 January 2017, the Control Statement must contain information regarding every individual invoice that the taxpayer was required to serve under Articles 71-75 on supply of goods and services subject to domestic VAT that are not VAT exempt. This shall exclude simplified invoices or those subject to the reverse charge treatment in accordance with Article 69 Section 12 Subsections f)-j), excluding simplified invoices.

As of 1 January 2017, taxpayers that transfer VAT liability to the counterparty under the reverse charge mechanism shall also include information in Section A.2. of the VAT Control Statement. This concerns supplies of:

- construction activities,
- delivery of a building or its part,
- goods with installation or assembly.

The reverse charge treatment applies as long as the supplied construction activities, a building (or its part), installation or assembly of goods falls within the scope of Section F (Construction Activities) of the Statistical Classification of Product by Activity (CPA).

INCREASE OF LUMP SUM EXPENSE DEDUCTIONS FOR SELF-EMPLOYED INDIVIDUALS

The biggest surprise for self-employed individuals is the enactment of a percentage increase of lump sum expense deductions. Currently, a self-employed individual can choose between two methods of applying expenses:

- actually incurred expenses
- lump sum deductions

For the 2016 tax period, 40% lump sum deductions are still in force whereas the maximum amount is EUR 5,040 a year.

Since 1 January 2017, there will be a change insofar that the percentage for applying the lump sum deduction will increase to 60%. The absolute limit also increases from EUR 5,040 to EUR 20,000. Newly, the limit shall not be calculated on a pro-rated basis for months of self-employed activities within a given year.

This change is mainly beneficial to artists, journalists and authors whose income is made of two components - active income (fee for creating a work) and passive income (fee for providing a license). Lump sum deductions of 60% will thus apply to both income components which means the cap will be twice EUR 20,000.

This change also introduces an additional benefit to self-employed individuals. The increase of expenses (lump sum deductions) will cause a reduction to their taxable income which determines amounts of social security and health insurance premiums.

DIGITAL DATA BOXES

Act No. 305/2013 Coll, on e-Government also addresses the more discussed topic of the digital data boxes. Data boxes have been set up by the government for all state authorities, entrepreneurs as well as citizens of 18 years of age and above.

The data boxes should serve for digital communication between state authorities and citizens as well as entrepreneurs. The list of state authorities that will start communicating in this manner is not known yet. For the time being, tax authorities, health insurance and social welfare authorities continue to communicate in written form.

The setup of data boxes does not concern foreign shareholders. The access to digital data boxes is only possible on the basis of an identity card issued to Slovak citizens.

Delivery of documents was supposed to start as of 1 January 2017. However, as identity cards of many entrepreneurs had to be exchanged, the shift of the start date to 1 July 2017 is being considered.

If an entrepreneur already took steps to get access to his or her account through their own identity card or using an authorized attorney until 31 December 2016, he or she is obliged to start using the data box. If he or she does not start doing so until 1 July 2017, the data box will be automatically activated as of that date.



Deactivation of a company digital data box activated for delivery is not possible. The digital tax box will be deleted only after the removal of the company from the Commercial Register.

REDUCTION OF CORPORATE INCOME TAX RATE

The pledged reduction of corporate income tax return to 21% has come into force. Starting with the new year, the companies will thus pay lower taxes.

In accordance with the Income Taxes Act amendment, the corporate income tax rate shall be reduced again, down to 21%. The lower income tax rate shall apply for the first time in the period starting on 1 January 2017 and later. In 2016, legal entities shall continue to apply the 22% rate. By reducing the income tax rate, the government has fulfilled its pledges included in the Government Program for years 2016-2020.

As the income tax rate is being reduced from 22% to 21%, advances to be paid as of 1 January 2017 will also be reduced. The advances calculated based on the 2015 tax return have to be recalculated using the new tax rate.

INCREASE OF THE MINIMUM WAGES

2017 year starts with an increase of the minimum wages from the original EUR 405/month amount to EUR 435/amount. The minimum hourly wages will increase from EUR 2.328 to EUR 2.5. This represents an 7.41% increase. This is the highest increase in the history of Slovakia.

The law calls for an annual increase of minimum monthly wages based on the following formula:

applicable monthly minimum wage for 2016 (i.e. EUR 405) times the rate of annual growth of average monthly wages for 2015 (i.e. 102.9)

Based on this formula, the minimum monthly wages for 2017 would have been EUR 416.8. Based on the Directive of the Slovak Government No. 280/2016, the minimum wages have thus been set EUR 18.2 higher than the law requires.

This increase will be reflected in the minimum wages determined based on the given work difficulty factor:

Work difficulty factor	Coefficient for minimum wages	Minimum monthly wages	Minimum hourly wages
1	1	435,00 €	2,500 €
2	1,2	522,00 €	3,000 €
3	1,4	609,00 €	3,500 €
4	1,6	696,00 €	4,000 €
5	1,8	783,00 €	4,500 €
6	2	870,00 €	5,000 €

If the weekly work is less than 40 hours, the minimum wages are adjusted as follows:

Factor	Minimum hourly wages depending on the time worked	
	38 and 3/4 hours	37 and 1/2 hours
1	2,5806 €	2,6667 €
2	3,0968 €	3,2000 €
3	3,6129 €	3,7333 €
4	4,1290 €	4,2667 €
5	4,6452 €	4,8000 €
6	5,1613 €	5,3333 €

The increase of the minimum wages will also cause an increase of payroll costs to employers by pushing up the sum of health insurance and social security premiums.

DIVIDENDS

After thirteen years, the Slovak government reintroduces taxation of dividends. When paying out past profits (dividends), a special health insurance levy of 14% applies until the end of 2016. Starting in 2017, the levy is abolished. To make up for it, withholding tax rate of 7% is introduced. The rate was originally set at 14%.

Dividends paid to legal entities will not be subject to tax i.e. no change in the current practice. For dividends paid to individuals, the following will apply:

- dividends paid from profits created until the end of 2013 - upon payment in years after 2016, a withholding tax rate of 7% shall apply,
- dividends paid from profits created in years 2004 - 2016 - the current regime shall apply i.e. dividends have not been subject to tax and this treatment shall remain in force in years after 2016. However, these dividends will continue to be subject to the special health insurance levy determined in accordance with the law valid in the given years (2011-2012: 10%, 2013-2016: 14%);
- dividends paid from profits created in years from 2017 onwards - the amendment proposes taxation of dividends paid to individuals via the withholding tax rate of 7% while abolishing their being subject to the special health insurance levy.

INCREASE OF PER DIEMS

The Ministry for Labor, Social Welfare and Family of the Slovak Republic has determined new rates of per diems applicable since 1 December 2016 for domestic business travel under Article 5 Section 2 of Act No. 283/2002 Coll., on per diems.

Rates of per diems for domestic business travel starting as of 1 December 2016:

- EUR 4.50 for business travel with duration of 5-12 hours,
- EUR 6.70 for business travel with duration of 12-18 hours,
- EUR 10.30 for duration above 18 hours.

The increase of per diems will mainly affect the value of meal vouchers. Their value derives from the amount of per diems for domestic business travel with duration of 5-12 hours. Based on the said law, the amount of a meal voucher will increase from the current EUR 3.15 to EUR 3.38.

The increase of per diems will also affect the amount of tax deductible costs for the employers. In accordance with Article 152 Section 3 of the Labor Code (311/2011 Coll.), the employer shall contribute at least towards 55% of the value of one meal, up to the limit of 55% of per diems applicable for business travel with duration of 5-12 hours. This means that the employer will be entitled to apply a tax deductible expense of between EUR 1.86-2.48 for one meal voucher.

A self-employed individual will be able to include in tax deductible expenses an amount of EUR 4.50 for every day worked.

COSTS DEDUCTIBLE UPON PAYMENT

Based on the amendment of the Act No. 595/2003 Coll., on Income Taxes, as further amended (further "ITA"), as of 1 January 2015, costs deductible upon payment have been newly defined.

As of 1 January 2017, the definition has been rendered more precise. We list below 10 categories of costs that require increased attention:

1. payments for damages
2. payments for lease of fixed assets (tangibles as well as intangibles)
3. payments for lease of intangibles (e.g. payments for provision of industrial know-how, software, copyrights or similar rights)
4. costs for marketing and other studies

5. costs for market research
6. commission fees at the level of the principal
7. costs relating to payments of income to taxpayers resident in countries with no Double Tax Treaty
8. costs for specific consultancy and legal services
9. costs for obtaining compliance with standards and for certificates
10. costs for sponsorship in sport based on a special agreement at the level of the sponsor

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Even though due care is paid to the preparation of the tax news, please be aware that their contents are only meant to be informative. Therefore, we recommend that any action envisaged on the basis of the tax news be discussed with your counsel prior to implementation.

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