

Dear clients and business partners,

We would like to use the opportunity to introduce to you, in this Tax News, the upcoming tax developments in 2019. The changes include, for example, VAT exemption in case of transfer of property, abolition of an obligation to deposit a security upon VAT registration, a change relating to the VAT deduction entitlement when purchasing certain types of goods, new items deductible from income tax base and other changes.

We trust that the information will be useful to you. In case of any questions, please do not hesitate to contact us,

Best regards,

LERIKA team

VAT IN 2019

There are several VAT-related changes upcoming in 2019. We bring to you below an overview of the most important ones.

VAT EXEMPTION IN CASE OF TRANSFER OF PROPERTY

VAT payer is the party transferring a property that decided, within five years since the property's final approval, that they will treat the transfer either as subject to VAT or as a VAT exempt supply.

However, as of 1 January 2019, there is a change upcoming. If a residential property is transferred, the transferor will no longer have an election to opt for its VAT treatment. The supply will always be VAT exempt. This also means that there will no longer be a possibility of an input VAT deduction and the proportional part of VAT claimed upon the property's acquisition will have to be returned.

Similarly, the election to opt for VAT treatment in case of lease of residential property is also abolished. Newly, the transaction will always be subject to VAT exemption with no corresponding VAT deduction.

"The VAT Act amendment restricts the option of the lessor to choose the VAT treatment for the lease of a flat, family house or an apartment in a residential property such that this type of lease must be VAT exempt, even when the transaction takes place among entrepreneurs. The goal of the new provision is to prevent fraud, when lease was declared as business-related, but in the final effect it was meant for private consumption", as explained by Soňa Ugróczy from the Slovak Chamber of Tax Advisers.

Based on transitional provisions, this change should apply to lease agreements concluded after 31 December 2018 based on which the property was handed over to the lessee after this date.

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In case of any questions, please do not hesitate to contact the relevant professional at LERIKA firm.



VAT SECURITY UPON REGISTRATION

After 7 years, the obligation for the VAT payer to deposit a security upon VAT registration has been abolished. Companies thus no longer have to be concerned about the fact that a tax administrator may request a VAT security during the VAT registration process. All the VAT securities deposited so far will also be refunded by 28 February 2019.

„VAT security has been in place since 2012 in order to prevent tax underpayments from arising at the level of newly registered VAT payers. Abolition of this provision confirms that its limited use value and represents a positive development. All the unspent VAT securities will be automatically refunded by the tax authorities until 28 February 2019”, says Soňa Ugróczy.

ELECTRONIC SERVICES PROVIDED ABROAD

A simplification of the rules in the area of the provision of electronic services has been enacted as of 1 January 2019 that will be appreciated by those in the e-commerce business.

Until the end of 2018, it used to be the case that the entrepreneur providing electronic services (e.g. sale of e-books, software applications etc.) to an individual not carrying out business activities in another EU member state, was required to levy VAT from this electronic service in the buyer's EU member state. The service provider levied the VAT either via a direct VAT registration in the respective EU member state, or through the so-called MOSS system.

As of 1 January 2019, a simplification has been enacted on the basis of which small-scale entrepreneurs whose annual turnover of electronic services to individuals not carrying out business activities within EU does not exceed EUR 10,000, are to levy domestic VAT. Electronic services of up to EUR 10,000 will thus be subject to the Slovak VAT rate.

VAT AND VOUCHERS

The new provision takes effect as of 1 October 2019, results from the EU Directive and concerns a change in the point when tax obligation arises when providing vouchers entitling their holder to buy goods or services.

As of 1 October 2019, the obligation to pay VAT arises at the point of selling the vouchers and not, as until now, when the underlying goods or services were delivered.

However, the above treatment does not apply if the vouchers are sold by a party other than the one which also delivers the goods or services to which the voucher entitles their holders. In such a case, the old rule that the VAT is levied when the goods or services are delivered remains in effect.

CHANGES RELATING TO PURCHASES OF SOME GOODS

As of 1 January 2019, entrepreneurs will be entitled to deduct VAT upon purchase also on the basis of a receipt from an electronic cash register, as long as the goods service business purposes.

Soňa Ugróczy – Slovak Chamber of Tax Advisers: *“the current regulation of rules governing domestic reverse charge mechanism when transacting with specific commodities such as agricultural, metal or iron products, caused various practical issues to taxpayers throughout 2018. When buying such goods, they were not entitled to an input VAT deduction on the basis of a receipt issued by an electronic cash register, although they were VAT payers in such transactions and despite the fact that the retail paid the VAT to the state directly when selling such goods.”*



MINIMUM WAGES AS OF 1 JANUARY 2019

With the onset of the new year, minimum wages have been increased by EUR 40 as of 1 January 2019, amounting newly to **EUR 520** per month for employees. This also entails the increase of the minimum hourly wages from the previous EUR 2.759/hour to **EUR 2.989/hour** (e.g. for those on short-term contracts).

MINIMUM INCOME

Minimum income is the socially accepted minimum threshold for an individual not to suffer from major material inadequacies. The minimum income amount always resets as of 1 July of the given calendar year. As of 1 January 2019, the minimum income amounts to **EUR 205.07**.

WAGES-RELATED PARAMETERS IN 2019

A change in the minimum income as of 1 July 2018 impacts the following parameters, applicable for the period 1 January – 31 December 2019:

1. Child-related tax bonus: **EUR 22.17** (monthly) or **EUR 266.04** (annually) for one child.
Be aware that, as of April 2019, the tax bonus increases to **EUR 44.34** for one child until 6 years of age. The increased tax bonus is last applied in the calendar month when the child reached 6 years of age.
2. Parental contribution: **EUR 220.70**.
3. Child contribution: **EUR 24.34**.
4. Surcharge to the child-related tax bonus: **EUR 11.41**.
5. Non-taxable part of the taxpayer's taxable income: **EUR 328.12** (monthly) or **EUR 3,937.35** – annually (for annual settlement/2019 tax return), if the taxpayer reaches taxable income of up to **EUR 20.507** (100 times minimum income).
6. Taxable income of individuals, the exceeding of which triggers reduction of the non-taxable part of the taxpayer's taxable income: **EUR 20.507**. The non-taxable part of the taxpayer's taxable income is calculated as follows:
 $9,064.094 - (\text{taxable income} : 4)$, where the amount of 9,064.094 = 44.22 times minimum income.
7. Annual personal taxable income (annual), the exceeding of which triggers 25% tax rate applied to the excess (and where the non-taxable part of the taxpayer's taxable income is set to zero): **EUR 36,256.37** (176.8 times minimum income).
8. Taxable income of individuals (monthly), the exceeding of which triggers 25% tax rate **EUR 3.021.36**.
9. Income tax is not assessed or paid: if the taxpayer's total 2019 taxable income does not exceed **EUR 1.968.67**.
10. Minimum pension amount: **EUR 278.90** (monthly).



PER DIEMS IN 2019

Per diems applicable as of 1 June 2018 are as follows:

- EUR 4.80 for the duration of 5-12 hours,
- EUR 7.10 for the duration of 12-18 hours,
- EUR 10.90 for the duration in excess of 18 hours.

As of 1 January 2019, basic compensation for every 1km travelled for business purposes amounts to:

- EUR 0.50 for motorbikes and tricycles,
- EUR 0.183 for personal vehicles.



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