This report provides helpful information on the current business environment in Slovakia. It is designed to assist companies in doing business and establishing effective banking arrangements.
This is one of a series of reports on countries around the world.

Global Banking Service

# Report on the Slovak Republic

## Contents



RBC Royal Bank®

## Important to Know

### Official language

- Slovak

### Currency

- Euro (EUR)

### Bank holidays

| 2011 | |
|---|---|
| January | 1, 6 |
| April | 22, 25 |
| May | 1, 8 |
| July | 5 |
| August | 29 |
| September | 1, 15 |
| November | 1, 17 |
| December | 24–26 |
| **2012** | |
| January | 1, 6 |
| April | 6, 9 |
| May | 1, 8 |
| July | 5 |
| August | 29 |
| September | 1, 15 |
| November | 1, 17 |
| December | 24–26 |

Source: www.goodbusinessday.com.

# Types of Business Structure

Under Slovakian law, there are several business structures available. Some require a minimum amount of share capital to be paid up before the business can be established. A financial institution must hold the paid share capital in a restricted account until the business is legally established.

### Joint-stock company

as (*akciová spoločnosť*). This is a company with its own trade name and with a predetermined amount of capital divided into shares of equal value. A shareholder's liability is limited to their capital. Shares may be registered, bearer, ordinary or preferred. This requires a minimum paid up share capital of EUR 25,000. The company must have both a management board and a supervisory board.

### Limited liability company

sro (*spoločnosť s ručením obmedzeným*). Participants own a percentage of its capital. A participant's liability is limited to their financial contribution. This requires a minimum share capital of EUR 5,000. The minimum contribution from each equity shareholder is EUR 750. These companies can have a maximum of 50 partners. A supervisory board is not required.

### General partnership

vos (*verejná obchodná spoločnosť*). In a general partnership all partners have full and joint liability. This requires no minimum share capital.

### Limited partnership

ks (*komanditná spoločnosť*). In a limited partnership, some partners enjoy limited liability (silent partners), although they are not permitted to exercise managerial control. Other partners are considered general partners and have unlimited liability. This requires no minimum share capital.

### Cooperatives

*Družstvo*. A cooperative is a registered legal entity that is owned and controlled by its members, who have equal voting rights.

### Other organizational types

Slovakian companies are entitled to form unlimited liability European Economic Interest Groupings (EEIGs) with companies based in other European Union (EU)* member states. An EEIG performs particular activities on behalf of its member owners. It is also permitted to perform these activities with entities outside the EU. An EEIG has unlimited liability.

*The EU is an economic and political union of 27 countries (including all members of its forerunner, the European Community, as well as other countries in Central and Eastern Europe), 16 of which use the euro as a common currency.

A *Societas Europaea* (SE) is a European public limited company, which can be established in any European Economic Area (EEA)* member state. It must maintain its registered office and head office in the same country, and it is subject to the company law in that country.

*EEA countries include those of the EU and three of the four European Free Trade Association (EFTA) member countries (Iceland, Liechtenstein and Norway).

### Branches and representative offices

Non-Slovakian companies are entitled to establish a branch or a representative office in Slovakia. A branch's activities are subject to Slovakian company law, although it is considered part of the company's head office and therefore not a separate legal entity. It requires no minimum share capital. To open a branch, a company must file a number of documents, including head office accounts. While branches are permitted to make sales, representative offices may not sell directly in Slovakia.

## Opening and Operating Bank Accounts

### Residency

To be considered resident, a company must be considered a permanent establishment in Slovakia according to the relevant legislation. Organizational units of resident companies based abroad are also considered to be Slovak resident.

### Domestic and foreign currency account restrictions

Residents are permitted to hold local currency (EUR) accounts outside Slovakia and foreign currency accounts both within and outside Slovakia.

Non-residents are permitted to hold local currency and foreign currency accounts.

All local currency accounts are fully convertible into foreign currency.

### Anti-money laundering and counter-terrorist financing rules

- Account opening procedures require formal identification of the customer.
- Beneficial owners must also be identified and have their identity verified by taking adequate measures on a risk-sensitive basis.
- Customer due diligence must be performed, including at the time of establishment of a business relationship – or when carrying out an occasional transaction outside a business relationship worth at least EUR 15,000 – regardless of whether the transaction is carried out in a single operation or in several linked operations, or in relation to a suspicious transaction regardless of the amount.

Supplied by BCL Burton Copeland (www.bcl.com). Data as at May 2010.

### Special purpose accounts required by local regulation

None.

### Value-added tax (VAT) on banking services

In Slovakia, VAT is not applied on banking services.

## Payment and Collection Instruments

Electronic funds transfers are the most common payment instrument for both domestic and cross-border payments in the EEA. They can be initiated using Internet and other electronic banking facilities. Non-urgent credit transfers are the primary payment method used to make payroll payments. They are also the most common method of payment for business-to-business (B2B) transactions. Card payments are commonly used for consumer transactions, with debit cards much more popular than credit cards. Direct debits are used primarily by utility and insurance companies to collect domestic payments. Cheque usage is not common in Slovakia.

### Payment Instrument Use (domestic)

| Payment instrument | Transactions (million)* | | % change 2008/2007 | Traffic (value) (SKK billion) | | % change 2008/2007 |
|---|---|---|---|---|---|---|
| | 2007 | 2008 | | 2007 | 2008 | |
| **Cheques** | 0.09 | 0.08 | – 11.1 | 2.1 | 2.4 | 11.4 |
| **Credit transfers** | 194.3 | 212.2 | 9.2 | 43,064.0 | 40,455.4 | – 6.1 |
| **Direct debits** | 116.8 | 101.8 | – 12.9 | 18,245.6 | 16,966.1 | – 7.0 |
| **Debit cards** | 65.5 | 77.7 | 18.6 | 130.4 | 152.8 | 17.2 |
| **Credit cards** | 7.4 | 9.6 | 30.7 | 12.7 | 16.9 | 33.0 |
| **Total** | **384.0** | **401.4** | **4.5** | **61,454.7** | **57,593.5** | **– 6.3** |

*Exchange rate: EUR 1 = SKK 30.1260 (January 1, 2009).

Source: ECB Payment Statistics, December 2009.

### Single Euro Payment Area (SEPA)

SEPA payment instruments allow enterprises to make and receive EUR-denominated credit transfers, direct debits and debit card payments from a single bank account to and from other parties located anywhere within the EEA and Switzerland. The use of International Bank Account Numbers (IBANs) and Bank Identifier Codes (BICs) is compulsory for transfers denominated in EUR between bank accounts in the EU.

### International Payments

International payments, including foreign currency payments and payments to and from parties located outside the EEA, are processed through same-bank networks, through multibank alliances or by using traditional correspondent banking techniques.

### Payment Processing Times

| Transactions processed (EUR-denominated) | Value dating rules | Cut-off time(s) in local Central European Time (CET) |
|---|---|---|
| High-value and urgent domestic and intra-EEA transfers | Real-time settlement, immediate finality | 17:00 CET |
| Non-urgent, low-value domestic credit transfers and direct debits | Settlement either same-day or next-day | 13:00 CET for same-day settlement |
| Non-urgent intra-EEA credit transfers | Settlement either same-day or next-day | Bulk credit transfers with a maximum value of EUR 50,000 = 22:00 CET for next-day settlement<br>Individual credit transfers = 14:30 CET for same-day settlement<br>SEPA credit transfers = 13:00 CET for same-day settlement or 01:00 CET for overnight/next-day settlement<br>SEPA consumer direct debits = 11:00 CET for same-day settlement<br>SEPA B2B direct debits = 12:00 CET for same-day settlement |

## Central Bank Reporting

The National Bank of Slovakia (NBS) requires that all transactions equal to or above EUR 50,000 between resident and non-resident bank accounts and on resident bank accounts held abroad (equal to or above EUR 12,500 if transactions involve non-residents from outside the EEA) are reported on an individual basis every month.

## Exchange Arrangements and Controls

Slovakia applies few currency exchange controls. There are some restrictions on foreign investment in the banking sector, airlines, lotteries and other games, as well as on resident banks' outward investments.

## Cash and Liquidity Management

Slovakia's admission to the eurozone at the beginning of 2009 has made the country an easier location in which to manage cash and liquidity. However, central bank reporting requirements and residual legal and regulatory uncertainty mean that few international companies seek to manage group cash and liquidity from Slovakia.

### Physical Cash Concentration

Physical cash concentration is available from the leading Slovakian and international cash management banks. Bank accounts held in the name of separate legal entities can only participate in the same cash concentration structure if there is a shareholding link and/or a relationship of effective control between those entities.

Resident and non-resident companies can participate in the same domestic cash concentration structure, although central bank reporting requirements will need to be met.

Pools can be denominated in local currency (EUR) and some foreign currencies. Only bank accounts held in the name of the same legal entity can participate in a cross-currency physical cash pool.

### Notional Cash Pooling

Notional cash pooling is available from a number of leading Slovakian and international cash management banks but is not commonly used. Resident and non-resident companies can participate in the same notional cash pooling structure. Multiple entities may participate in a single currency notional pool, but cross-currency notional pools are limited to single legal entities.

### Short-term Investment

#### Bank instruments

Interest-bearing current accounts are generally available. Banks offer time deposits in a range of currencies for terms from overnight to one year. Banks also issue fixed-rate certificates of deposit (CDs), usually for terms of up to one year.

#### Non-bank instruments

Some Slovakian companies issue commercial paper (CP), although investors have access to the wider euro commercial paper (ECP) market as well. In both cases, the maximum maturity of the paper is one year, although ECP is usually issued for shorter periods.

The Slovakian Ministry of Finance issues Treasury bills for periods of up to one year. The NBS also issues its own bills, primarily for monetary policy purposes.

Slovakian companies have access to European-based money market funds.

### Short-term Borrowing

#### Bank

Overdrafts, bank lines of credit and bank loans are usually all available in Slovakia to both resident and non-resident companies. Banks will usually charge a margin over Euribor (the Euro Interbank Offered Rate) for EUR-denominated facilities. Other commitment and arrangement fees will also be charged.

#### Non-bank

Larger companies issue CP into both the domestic and the ECP markets. Issues into the ECP market require a rating. ECP can be issued for periods from a week to one year, depending on borrowing requirements and investor appetite.

Trade bills can be discounted, and factoring (usually on a disclosed basis) is available with or without recourse.

## Taxation

### Corporate Taxation

- The Slovak corporate tax rate is 19%. Resident companies are subject to taxation on their worldwide income. Non-resident companies are subject to taxation on their Slovak-sourced income.

#### Financial instruments

- Based on Slovak domestic tax law, the tax treatment of financial instruments is generally accounting driven. Revenues derived from financial instruments (e.g. loans, options, futures, swaps) should be taxable at 19% and should be included in the tax base when accounted for. A loss generated from derivative transactions should be considered as tax deductible only if a derivative transaction (including swaps, options and futures) is considered as a hedging derivative for accounting purposes (e.g. hedging is effective, proper documentation exists). The loss from derivatives is calculated in aggregate for the entire tax period.
- For certain taxpayers, such as banks, stockbrokers and insurance companies, the loss from derivative transactions is tax deductible.
- The tax deductibility of a loss from the disposal of securities is also subject to limitations. For special taxpayers (e.g. banks or traders) there is no limitation on the tax deductibility of such losses.

#### Interest and financing costs

- The Slovak tax legislation does not set out any specific rules for the deduction of financing costs. The general tax deductibility test applies, which requires the expense to be incurred in order to generate, assure and maintain the taxable income of the taxpayer.
- In practice, the interest expense incurred on loans that are used for the acquisition of shares may be questioned by the

Slovak tax authorities, as various interpretations exist. This is based on the theory that expenses incurred on exempt income (e.g. exempt dividends) are not tax deductible. On the other hand, a capital gain from the sale of shares is taxable, so that a deduction could be claimed. In addition, no consistent approach is applied to the tax deductibility of interest expenses incurred to finance dividend distributions.

### Foreign exchange

- The tax treatment of foreign exchange differences is accounting driven, i.e. foreign exchange is included in the tax base as it is accounted for in the profit and loss account.
- Based on Slovak tax law, a taxpayer is allowed to choose a tax treatment applicable to unrealized foreign exchange differences arising from the revaluation of assets and liabilities denominated in a foreign currency. Taxpayers may choose to include unrealized foreign exchange differences into the tax base either:
  - in accordance with accounting treatment (no notification is needed); or
  - in the tax period of their realization. This treatment can only be applied where a written announcement has been filed with the respective tax authorities prior to the first day of the relevant taxation period.
- In Slovakia, taxable profits and the tax liability should be calculated in euros.

## Advance Tax Ruling Availability

- The Slovak authorities can be asked to approve the transfer pricing method to controlled foreign transactions. The approval is issued for five tax years upon written request, with the possibility of extending it for a further five-year period, provided that no changes in the conditions under which the ruling was issued have occurred. In addition, it is also possible to ask the tax authorities for their opinion in areas where the interpretation of law is unclear. However, these opinions are not legally binding.
- It is not possible to formally agree to the treatment of specific transactions in advance.

## Withholding Tax (subject to tax treaties and other exemptions)

- In general, qualified dividends paid out of profits earned from January 1, 2004 are not taxable. For dividends reported from profits for 2003 or an earlier taxation period, special rules apply. Such dividend distributions are generally subject to tax at 19%, except for certain dividend distributions within the EU that are subject to special conditions (a 25% participation requirement).
- Interest from loans and royalties paid cross-border are not subject to any Slovak withholding tax provided that:
  - the interest and royalties are paid to a beneficial owner who is a resident of an EU state and before the payment the recipient held, for a minimum of 24 months, at least a 25% direct shareholding in the basic capital of the payer of the interest (or vice versa); or
  - the recipient and the payer have the same parent company within the EU, with at least a 25% direct shareholding in both of the entities, also for a minimum period of 24 months.

  Otherwise, the interest is subject to 19% withholding tax (subject to possible reduction or exemption under a double tax treaty).
- A 19% Slovak collateral tax (tax prepayment) is levied on some Slovak-sourced payments to non-EU residents (subject to possible reduction or exemption under a double tax treaty). The tax prepayment, withheld in the form of collateral tax, can be reclaimed by submitting a Slovak tax return.

## Capital Gains Tax

- Capital gains should be included in taxable income and are subject to 19% Slovak corporate tax in the period in which they are realized. The respective gain is calculated as the sale price less costs. Some capital losses are considered as non-deductible, e.g. losses from the sale of certain assets, land, receivables or an ownership interest in a limited liability company. The losses on the disposal of receivables may be deductible in certain circumstances.

## Stamp Duty

- There are no stamp duties in the Slovak Republic.

## Thin Capitalization

- The thin capitalization rules which should have entered into effect on January 1, 2010 have been abolished.
- Currently, there are no thin capitalization rules in Slovakia.

## Transfer Pricing

- Slovak transfer pricing rules generally follow the Organisation for Economic Co-Operation and Development's (OECD) transfer pricing guidelines. Under the Slovak transfer pricing rules, prices agreed in transactions between foreign personally or economically related parties must be set at arm's length (i.e. are comparable to prices which would otherwise be agreed between unrelated parties).
- As of January 1, 2009, Slovak taxpayers are obliged to prepare upfront transfer pricing documentation. The extent of the transfer pricing documentation required is specified in a binding regulation issued by the Slovak Ministry of Finance.

## Sales Taxes / VAT

- Goods and services are generally subject to VAT at a standard rate of 19%. A reduced VAT rate of 10% applies to antibiotics, certain pharmaceutical products and sanitary products; since January 1, 2008 it has also applied to books.
- EU VAT principles are included in Slovak VAT legislation. Certain goods (e.g. the sale of immovables under specific conditions) and services (e.g. postal services, broadcasting and financial services under specific conditions) are exempt from VAT. The export of goods and certain services is zero-rated, with the right to deduct input VAT.

## Payroll and Social Security Taxes

- The individual income tax rate is 19%. Employers withhold tax on a monthly basis for social security contributions.

All tax information supplied by Deloitte Touche Tohmatsu (www.deloitte.com).
Data as at April 1, 2010.

Report prepared August 2010.

RBC Royal Bank®



31290