

# **Overview of Taxation in Slovakia**

## **I. Basic Information**

Slovakia is a landlocked country in central Europe, bordered by Poland to the north, Ukraine to the east, Hungary to the south and the Czech Republic to the west. The country has an area of approximately 49,000 square kilometers and a population of 5.45 million. The abundant natural resources and advantageous geographical location make it an important link in the “Belt and Road Initiative”.

In terms of economic structure, the Slovakian economy is dominated by industry and services. Among them, the automotive manufacturing industry is the pillar industry of the country and enjoys the reputation of "the Heart of European Automobiles". Besides, industries such as electronics, chemical, and food processing also have strong competitiveness. After Slovakia joined the European Union, its economy gradually integrated into the European market and its dependence on foreign trade was high. In recent years, with the advancement of the "Belt and Road Initiative", economic and trade exchanges between China and Slovakia have become increasingly close, injecting new impetus into the economic development of Slovakia.

In terms of social culture, Slovakia has a long history and rich cultural heritage. The ethnic composition of the country is mainly Slovaks, along with minorities such as Hungarians and Czechs. Slovak is the official language, and foreign languages such as English and German have a high penetration rate. In the areas of education, health care and social security, Slovakia has established relatively complete systems, and the people's living standards have been continuously improving.

In terms of the political system, Slovakia is a parliamentary democracy, with the head of state as President and the head of government as Prime Minister. The political pattern is relatively stable and the party system is mature. Slovakia attaches great importance to its friendly relations with China and actively participates in the construction of the "Belt and Road Initiative". The two sides have carried out extensive cooperation in the fields of politics, economy, and culture.

## **II. Organizational Structure**

The tax administration institutions in Slovakia are mainly divided into the following tiers:

**Ministry of Finance:** The Ministry of Finance is the main formulator and supervisor of Slovakia's tax policies. It is responsible for formulating tax laws and regulations, budget policies, international tax agreements, and general guidance on tax collection. The Ministry of Finance has multiple departments, among which the most important one is the Financial Administration.

**Financial Administration:** The Financial Administration is the main executive agency for tax collection and management in Slovakia, responsible for the collection and administration of all taxes. It consists of the following main departments:

**Tax Collection Directorate:** Responsible for tax collection, tax audits, and the recovery of tax debts.

**Tax Management Directorate:** Responsible for tax registration, tax declaration, and the approval of tax preferential policies.

**Large Taxpayers Directorate:** Specifically responsible for the tax management and services of large taxpayers.

**International Taxation and Transfer Pricing Directorate:** Handles international tax

issues, including transfer pricing and bilateral tax agreements.

**Local Tax Offices:** Throughout the country, Slovakia has multiple local tax offices, which are responsible for implementing tax collection and management work within their jurisdiction. The functions of local tax offices include tax registration, acceptance of tax declarations, and tax audits of small-scale taxpayers.

**Customs Directorate:** Although the Customs Directorate is organizationally affiliated with the Ministry of Finance, it is independent of the Financial Administration and is responsible for collecting import and export tariffs and other related taxes and fees, while supervising cross-border trade.

### **III. Current Tax System**

There are diverse different kinds of taxes and rate structures. in Slovakia, which is aimed to achieve tax fairness and efficiency. The setting of the tax system takes into account the country's economic situation, social fairness, and the tax coordination policies of the European Union. Through this comprehensive tax system, Slovakia can effectively raise national fiscal revenue while promoting the healthy development of the economy.

The kinds of taxes in Slovakia mainly includes the following types:

**Direct Taxes:** Enterprise Income Tax, Individual Income Tax, Real Estate Tax.

**Indirect Taxes:** Value Added Tax (VAT), Consumption Tax (for specific goods such as tobacco and alcohol), Customs Duty.

**Other Taxes:** Social Security Contributions, Health Insurance Contributions, Property Transfer Tax, Road Use Tax.

**Taxpayers:** Taxpayers include natural persons and legal entities engaged in economic activities within the territory of Slovakia. Depending on different tax types, taxpayers can be enterprises, individuals, non-residents, etc.

**Object of Taxation:** The base of taxation vary depending on the tax type and can be the profits of enterprises, the income of individuals, the transaction volume of goods and services, the value of property, etc.

**Tax Rates:** Tax rates vary depending on different tax types and taxable objects. Here is an overview of the tax rates of some major tax types:

**Enterprise Income Tax:** The tax rate for corporate income tax is 21%.

**Individual Income Tax:** it adopts a progressive tax rate, with the maximum tax rate being 25%.

**VAT:** The standard VAT rate is 20%, but some goods and services are subject to reduced rates (10%) or preferential rates (5%).

**Consumption Tax:** Consumption tax rates vary depending on the type of goods. For example, the tax rates for tobacco products and alcoholic beverages are relatively high.

### **IV. Overview of tax preference policies**

The tax preferential policies in Slovakia aim to support enterprise innovation, promote employment, encourage investment, and technological upgrading. These policies not only help improve the competitiveness of enterprises, but also provide individuals with opportunities to reduce the tax burden. The government, through these measures, strives to create an environment conducive to economic growth and investment.

It should be noted that tax preferential policies may be adjusted according to economic conditions and policy goals. When applying to enjoy tax preferentials, enterprises should ensure that they meet all relevant conditions and requirements and

consult professional tax advisors when necessary. Through these tax preferential measures, Slovakia demonstrates its commitment to enterprise and social development and provides a favorable tax environment for domestic and foreign investors.

The Slovak government has implemented a series of tax preferential policies to promote economic development and encourage specific industries and activities. The following is a brief introduction to some key tax preferential measures of major taxes to help understand the tax policy environment in Slovakia.

Enterprise Income Tax preferential Policies:

R&D Tax Credit: The Slovak government encourages enterprises to conduct R&D activities and provides a tax credit of up to 50% for R&D expenditures. For R&D expenditures of small and medium-sized enterprises, the tax credit ratio can be as high as 100%.

Investment preference: For new enterprises investing in Slovakia or enterprises expanding production, they can enjoy investment tax preferentials, including investment subsidies and investment tax credits.

Regional Tax preference: Enterprises investing in specific economically underdeveloped regions can enjoy corporate income tax exemptions, with the exemption period ranging from 10 to 15 years.

Individual Income Tax preferential Policies:

Child Rearing Tax Credit: Families can enjoy tax credits related to child rearing to reduce the economic burden of raising children.

Education Expenditure Tax Credit: Personal education expenses, such as children's education expenses, can enjoy tax credits within a certain limit.

VAT preferential Policies:

VAT preferentials for First Homes: Individuals purchasing their first home can enjoy VAT exemptions to reduce the burden of home purchase.

VAT preferentials for Agricultural Products: When agricultural producers sell agricultural products, a reduced VAT rate is applied.

Other Tax preferential Policies:

Tax preference for Innovative Enterprises: Companies identified as innovative enterprises can enjoy corporate income tax exemptions and preferences in other taxes.

Tax preference for Environmental Protection Investments: To encourage environmental protection investments, the Slovak government provides tax credits for enterprises' environmental protection projects, including energy-saving renovations and renewable energy projects.

## **V. Tax Collection and Administration**

The tax collection and administration functions in Slovakia are mainly the responsibility of the Financial Administration, and its functions include:

Tax Collection: Responsible for collecting various types of taxes, including direct and indirect taxes.

Tax Registration: Manage tax registration to ensure that all taxable entities are registered in the tax system.

Tax Declaration: Process taxpayers' declaration materials to ensure the accuracy and timeliness of declarations.

Tax Audit: Audit taxpayers' accounts and records to verify the authenticity of declarations.

Tax Enforcement: Investigate and handle violations of tax laws, including tax violations and tax evasion.

Information Technology Construction for Tax Collection and Administration: Slovakia has made significant progress in the information technology of tax collection and administration, mainly manifested in:

Electronic Tax System: A comprehensive electronic tax declaration and payment system has been established, and taxpayers can conduct tax declaration and payment through the online platform.

Data Analysis: Utilize advanced data analysis tools to conduct in-depth analysis of taxpayers' data to improve the efficiency and accuracy of tax audits.

Information Services: Provide convenient services such as online consultation and electronic file inquiry to improve tax transparency and public satisfaction.

Reforms in Tax Collection and Administration: The tax collection and administration reforms in Slovakia aim to improve the efficiency and fairness of the tax system. The reform directions include:

Simplify the Tax System: By simplifying the tax system, reduce tax loopholes and improve the enforce-ability of tax laws.

Optimize Tax Processes: Simplify tax collection and management processes, reduce administrative burden, and improve the efficiency of tax authorities.

Strengthen Tax Enforcement: Enhance tax enforcement efforts, crack down on tax evasion and tax avoidance, and maintain the seriousness of tax laws.

Improve Service Quality: By training tax officials, improve the professional level of tax services and improve taxpayers' tax experience.

The tax collection and administration system in Slovakia is becoming more efficient, transparent and convenient through continuous information construction and reform. These measures not only can improve the efficiency of tax collection but also enhance public trust and satisfaction with the tax system. With the deepening of tax collection and administration reforms, the tax environment in Slovakia will be more conducive to stable economic growth and harmonious social development.

## **VI. Taxpayer Services**

The Slovak government is committed to providing efficient and convenient taxpayer services to optimize the business environment and improve taxpayers' satisfaction. There is a brief introduction to the taxpayer services in Slovakia, which including the main tax handling service channels, measures related to services for large enterprises, and initiatives to improve the level of taxpayer services and promote the optimization of the business environment.

Electronic Tax Services: Slovakia promotes the use of electronic tax systems, and taxpayers can conduct tax registration, tax declaration, tax payment, and tax information inquiries through the Internet. This electronic service greatly improves the efficiency of tax handling.

On-site Services: Local tax offices are set up nationwide to provide face-to-face services for taxpayers. Taxpayers can handle tax registration, submit declaration materials, and consult tax issues at the tax office.

Hotline and Email Consultation Service: The tax office provides telephone and email consultation services. Taxpayers can obtain tax information and solve questions during the tax handling process through these channels.

Measures Related to Services for Large Enterprises:

Tax Services for Large businesses: The Financial Administration has a dedicated large taxpayers management department to provide personalized tax services for large enterprises, including tax planning and consultation, and special audits.

Appointment Services: Provide appointment services for large enterprise

taxpayers to ensure they can obtain necessary tax support and guidance in a timely manner.

**Risk Management and Compliance Guidance:** Provide professional guidance on risk management and tax compliance based on the characteristics and needs of large enterprises to help large enterprises effectively control and reduce tax risks.

**Initiatives to Improve Taxpayer Service Levels and Optimize the Business Environment:**

**Simplify Tax Handling Processes:** The Slovak government continuously simplifies tax handling processes, reduces tax handling time and costs, and improves tax handling efficiency.

**Taxpayer Training and Education:** Regularly hold taxpayer training activities to improve taxpayers' tax knowledge and self-declaration capabilities.

**Transparency and Information Disclosure:** Disclose tax regulations, tax rates, tax handling guidelines, and other information through the official website of the tax office and other channels to improve tax transparency.

**Improve Service Quality:** Improve the professional quality and service awareness of tax officials, improve the tax service experience, and establish good tax-enterprise relationships.

**Feedback and Complaint Handling:** Establish an effective taxpayer feedback and complaint handling mechanism, promptly respond to taxpayers' opinions and suggestions, and continuously improve taxpayer services.

The construction of the taxpayer services in Slovakia reflects the government's emphasis on improving tax governance capabilities and optimizing the business environment. Through these measures, Slovakia aims to establish a fairer, more transparent, and efficient tax environment that will contribute to the sustainable and healthy development of the economy.

## **VII. Tax Legislation Process**

The tax legislation process of Slovakia reflects the development and changes of the country's tax legal system. The following is a brief introduction to its tax legislation, focusing on recent legislative measures to understand the process of the Slovak tax legal system.

**Early Tax Legislation:** The tax legislation of Slovakia can be traced back to the 1990s. With the dissolution of the Czechoslovak Federal Republic, Slovakia became an independent country in 1993. After independence, Slovakia began to construct its own tax system and gradually formulated a series of tax laws, including the Corporate Income Tax Law, Personal Income Tax Law, and Value Added Tax Law, etc., laying the foundation of the national tax legal framework.

**Legislation Before Joining the European Union:** Before joining the European Union in 2004, the tax legislation of Slovakia mainly focused on adapting to EU standards and norms. During this period, Slovakia revised its tax laws several times to meet EU requirements, especially in the fields of VAT, corporate income tax, and personal income tax.

**Recent Legislative Measures:** In recent years, the tax legislation activities in Slovakia have mainly focused on the following aspects:

**Tax System Simplification:** To improve the efficiency of the tax system, the Slovak government has taken a series of measures to simplify the tax system. For example, tax declaration procedures are simplified by reducing tax rates and tax types to reduce the burden on taxpayers.

**Combating Tax Evasion and Tax Avoidance:** In response to tax evasion and tax

avoidance, Slovakia has strengthened the revision of tax laws, enhanced the auditing and law enforcement powers of tax authorities, and increased the penalties for illegal acts.

**Promoting Innovation and Investment:** To encourage innovation and attract investment, Slovakia has passed multiple tax preferential measures, such as R&D tax credits and investment tax preferentials. These measures have been incorporated into the tax law to provide tax preferences for enterprises and individuals.

**International Tax Cooperation:** Slovakia actively participates in international tax cooperation, has signed agreements for the avoidance of double taxation with multiple countries, and has introduced requirements for international tax compliance in the tax law, such as anti-avoidance provisions and regulations on the transfer of profits of multinational companies.

**Electronic Tax and Digital Transformation:** With the development of information technology, Slovakia has added relevant provisions on electronic tax to the tax law, promoting the informational process of tax collection and management and improving the efficiency of tax management.

The tax legislation process of Slovakia reflects the transformation of the country's tax system from establishment to gradual improvement. Through continuous legislative measures, Slovakia aims to establish a fairer, more transparent, and efficient tax environment to adapt to the needs of domestic economic development and international tax cooperation requirements. These legislative activities not only promote the modernization of the tax legal system but also provide a strong legal guarantee for the economic development and social stability of Slovakia.

## **VIII. Future Tax Reform Plan**

The tax system reform in Slovakia is an important part of its fiscal policy, aiming to adapt to changes in the domestic and international economic environment and promote the country's long-term sustainable development. The following is a brief introduction to the future tax reform plan in Slovakia to understand the trends of tax development in the country.

**Simplify the Tax System and Improve Efficiency:** The Slovak government plans to continue simplifying the tax system, reducing the complexity and cost of tax collection, and improving the overall efficiency of the tax system. This includes consolidating and simplifying tax types, reducing tax rate brackets, and optimizing the tax collection and management process to reduce the administrative burden on taxpayers.

**Promote Innovation and Investment:** To support an innovation-driven development model, Slovakia plans to further stimulate enterprise R&D and innovation activities through tax system reform. This may involve expanding the scope of R&D tax credits and providing more tax preferences to enterprises engaged in high-tech R&D.

**Strengthen Tax Fairness:** Tax reforms in future will focus on tax fairness to ensure that the tax system can better reflect the taxpayers' ability to pay. This may include adjusting the personal income tax rate structure, reducing the tax burden on low-income groups, and ensuring that high-income earners bear the corresponding tax burden.

**Crack Down on Tax Evasion and Tax Avoidance:** The Slovak government will continue to strengthen tax laws and regulations and increase the crackdown on tax evasion and tax avoidance. This includes strengthening international cooperation, implementing more effective cross-border tax supervision, and using advanced

technological means for tax audits.

**Promote Electronic Tax and Digital Transformation:** With the development of digital technology, Slovakia plans to further promote the electronic and digital transformation of the tax collection and management system. This will provide taxpayers with more convenient electronic services and improve the data analysis and processing capabilities of tax authorities.

**Adapt to EU Tax Policies:** As an EU member state, Slovakia will continue to align with EU tax policies in future tax reforms, especially in areas such as VAT, corporate income tax, and environmental protection tax.

The tax system reform plan of Slovakia reflects the government's recognition of the important role of tax policies in promoting fair economic growth and social development. Through these reforms, Slovakia aims to establish a more modern, efficient, and fair tax system to support the country's long-term prosperity and stability.

## **IX. International tax cooperation**

As an EU member state, Slovakia actively participates in international tax cooperation and is committed to establishing a fair and transparent international tax environment. The following is a brief introduction to Slovakia's international tax cooperation to understand the country's tax treaty network and participation in the formulation of international tax rules.

**Tax Treaty Network:** Slovakia has signed bilateral tax treaties with multiple countries, which are designed to avoid double taxation and tax evasion. Through the treaties, Slovakia has established an extensive network of tax treaties, which not only helps to promote international trade and investment, but also provides tax certainty for multinational businesses. These agreements cover a number of taxes, including corporate income tax, personal income tax, dividends, interest and royalties, etc.

**Participation in the Development of International Tax Rules:** Slovakia actively participates in the development and reform of international tax rules. As an OECD member state, Slovakia participates in several international tax initiatives, including the Base Erosion and Profit Shifting (BEPS) project. The country is committed to implementing the BEPS Action Plan to combat tax avoidance by multinational corporations and ensure the proper distribution of tax benefits.

**Tax Cooperation in EU:** Slovakia cooperates closely with other member states in EU to promote the harmonization and consistency of EU tax policies. This includes participation in the development and implementation of the EU VAT Directive, as well as the coordination of corporate income tax and inheritance tax.

**Multinational Tax Audits and Information Exchange:** Slovakia has effective tax audit cooperation and information exchange with other countries in order to enhance its tax collection capacity for transnational taxpayers. The country has implemented the Automatic Exchange of Tax Information (AEOI) and shared tax data with partner countries around the world to improve tax transparency and combat multinational tax evasion.

**International Tax Forums and Institutions:** Slovakia actively participates in international tax forums and institutions such as the International Fiscal Association (IFA) and the European Committee on Taxation (CTE). Through these platforms, Slovakia can exchange experience with tax experts from other countries and discuss tax policy and collection issues together.

International tax cooperation of Slovakia demonstrates the country's active role in global tax governance. By participating in the development of international tax

rules and expanding the network of tax treaties, Slovakia not only promotes the modernization of tax system, but also contributes to the deepening of international tax cooperation. These efforts will help build a more stable and fair international tax environment, which is conducive to the healthy development of the global economy.

## **X. Others**

Tax environment and related policies in Slovakia are multifaceted, covering not only tax administration and legislation, but also environmental protection, social security, regional economic development, entrepreneurship support and international tax cooperation. These elements collectively form a complete picture of the Slovak tax system and are important for understanding the economic and social development of the country. The following are some other facts that need to be introduced or added to help understanding of the tax environment and related economic policies in Slovakia.

**Environmental Protection and Green Taxation:** The Slovak Government attaches importance to environmental protection and promotes sustainable development by implementing a series of green taxation policies. This includes taxes on pollution emissions and resource consumption, as well as tax preferentials for businesses that use renewable energy and implement environmental measures. These measures are aimed at reducing environmental pollution and encouraging enterprises to adopt environmentally friendly production methods.

**Social security:** The social security system is supported by a variety of tax and non-tax revenues, including social security contributions and health insurance contributions. The revenue is used to fund pensions, unemployment benefits, health care and other social welfare programs. Taxes play an important role in ensuring the stability of funding for these social safety net programs.

**The Differences of Regional Economic Development:** There are regional differences in Slovakia's economic development, so that the government has adopted some regional preferentials in tax policy. These measures are aimed at supporting the development of economically underdeveloped regions by providing tax breaks and other preferentials to attract investment and boost employment.

**Entrepreneurship and Small Business Support:** In order to encourage entrepreneurship and small business development, the Slovak Government provides a variety of support measures such as tax preferentials. This includes tax breaks for start-ups, simplified tax filing procedures, and financial subsidies and loan guarantees for small businesses.

**Anti-Money Laundering and Counter-Terrorism Financing:** Slovakia also focuses on anti-money laundering and counter-terrorism financing in tax administration. Tax authorities work closely with financial intelligence units to monitor and combat money laundering and terrorist financing through tax system.

**Tax Transparency and Public Participation:** The Slovak Government is committed to increasing tax transparency. The government provides taxpayers with a better understanding of tax policies and regulations through public consultation and information disclosure. In addition, the government encourages the public to participate in the process of formulating tax policies through public opinions to enhance the rationality and acceptability of tax policies.