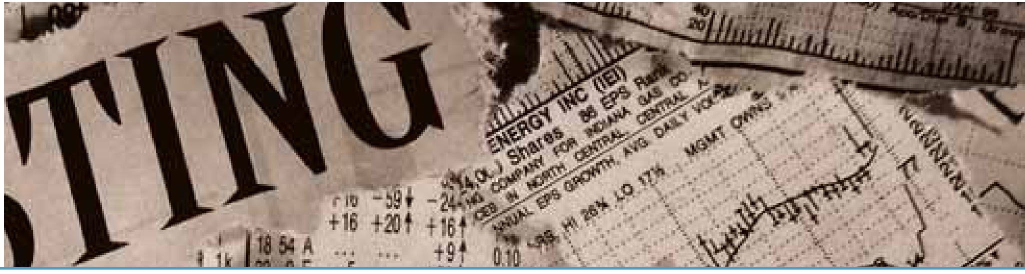

Taxes in Slovakia

The tax system of the Slovak Republic is compliant with the systems of taxation in other EU Member States and includes corporate and personal income tax, standard value added tax (VAT), special taxes imposed on certain assets (such as real estates, vehicle-road tax) as well as a system of excise taxes levied on specific goods such as alcohol or tobacco products.

1. Income Tax

In 2004 Slovakia considerably simplified its tax system and introduced flat 19% rate on both income tax of individuals and income tax of legal entities, irrespective of the amount of their income. The Slovak flat income tax at rate of 19% is generally one of the lowest income taxes among the EU Member States. Dividends as capital gains of shareholder in a Slovak company are exempted from taxation. The profit acquired by a legal entity and taxed with a corporate income tax is no more subject to taxation at the moment of profit distribution to the shareholders or members/partners of the entity.

Generally, the individuals and legal entities having their registered seat, residence or place of management of business in Slovakia are subject to taxation under the income tax. Foreign entities may become subject to taxation for the performance of their business activities in Slovakia provided that they have established permanent business or employ employees in Slovakia for at least 183 days during the period of 12 consecutive calendar months.

Certain deductible items may be deducted from the tax base of individuals and thus lower their tax duties (e.g. contributions to supplementary pension savings, special-purpose savings and life insurance payments in the maximum total amount of SKK 12,000, tax bonus for children, foreign mandatory social security contributions, personal allowance). As of the 2007 tax year, for taxpayers whose taxable annual income exceeds SKK 498,000 (approx. EUR 14,792), the basic deductible personal annual allowance (SKK 95,616, i.e. EUR 2,840 for 2007) of the tax base is gradually reduced to SKK 0, depending on the taxpayer's income. In case of corporate tax, the law specifies the types of expenses that are considered as tax deductible expenses which may influence the tax base and specifies up to which amount they can be acknowledged as tax deductible.

For example, acquisition of a share in a company (except for shares in a joint-stock company having a different regime) is not a tax deductible expense in the year of its acquisition but only in the year of its sale (only up to the amount of the income received from such sale). Any "bad" (unrecoverable) debts may be written off only under the conditions stipulated by law, especially in case of insolvency proceedings of the debtor; the debts of the value under SKK 1,000 (approx. EUR 30) may be written off if the costs of their recovery exceed the value of the debt. Marketing expenses spent for the purpose of presentation of business activities of an entrepreneur are also tax deductible.

The tax proceedings have been substantially simplified within the new Slovak income tax system.

For purposes of the depreciation, the Slovak Income Tax Act divides assets into 4 categories. The period of depreciation ranges from 4 to 20 years (for example real estates are subject to a 20-year depreciation). Two methods are available for spreading tax depreciation: (i) straight-line method and (ii) accelerated method. The choice of method must be made on asset-by-asset basis and, once made, cannot be changed.

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2. Value Added Tax

The VAT registration duty is imposed on those persons performing business activities who: (i) have their seat, place of business or establishment in Slovakia and (ii) have reached a turnover exceeding SKK 1,500,000 (approx. EUR 44,280) during twelve preceding consecutive calendar months. The same applies to persons having their seat, place of business or establishment in Slovakia and performing their business activities jointly on the basis of an association or similar agreement. In addition, any individual or legal entity performing business activities may upon its own decision apply for VAT registration (irrespective of the turnover reached).

The supplies that are subject to VAT may be divided into four categories: (a) supply of goods for consideration performed in Slovakia by VAT liable entities, (b) provision of services for consideration performed in Slovakia by VAT liable entities, (c) acquisition of goods for consideration performed in Slovakia from other EU Member States, and (d) import of goods to Slovakia (from outside the EU territory).

Certain types of supplies are exempt from VAT, including postal services, financial services or insurance services. A flat 19 % VAT is levied on all taxable supplies, except for items related to public health services (listed in the annex of the VAT Act), where a reduced rate of 10 % applies.

3. Excise Taxes

There is a standard system of excise taxes imposed on certain sorts of goods such as mineral oils, spirits, liqueurs, beers, wines and tobacco products in Slovakia. The tax is due by producers and importers of such goods, usually monthly by a lump sum depending on the volume of goods. The Slovak government has prepared and submitted to the Slovak parliament the Bill on Excise Tax on Electricity, Coal and Natural Gas in compliance with Council Directive 2003/96/EC (expected to enter into force on 1 January 2008, certain provisions on 1 July 2008).

4. Real Estate Tax

Each owner of a real estate located in Slovakia is obliged to pay real estate tax, in case of lands at a rate of 0.25 % of the value of the land determined by the expert's appraisal or, in case of agricultural land, by the relevant Decree of the Ministry of Agriculture and in case of buildings at a rate of SKK 1 per 1 m^2 of built-up area. The tax is payable annually to the municipal authorities and its rate may be subject to changes by the decision of the municipal authorities.

Only the transfers of real estate for consideration performed before 1 January 2005 were subject to real estate transfer tax; no real estate transfer tax is payable for transfers performed after that date.

5. Motor Vehicles Tax

Vehicles used for business purposes are subject to road tax imposed by the self-governing regions, with the minimum progressive rate depending on the type of vehicle and ranging from SKK 1,600 to 6,160 for personal motor vehicles, and from SKK 1,800 to 75,400 for utility vehicles and busses.

Note: Information contained in this Chapter reflects the legal and factual state as of 1 October 2007.
The information contained in this publication is not legal advice.