

# State Aid and Investment Incentives in Slovakia

## 1. State Aid

Slovak Republic has harmonised the rules on providing state aid with the European Community (EC) legislation after its accession to the European Union on 1 May 2004. For this reason, the Slovak Republic may provide state aid only in accordance with the rules laid down at the European Union level.

State aid may be provided on an individual basis or within a scheme of state aid. Generally, state aid is subject to the approval of the European Commission pursuant to Articles 87 and 88 of the EC Treaty. However, the above mentioned EC regulations contain a number of exemptions from the approval of the Commission. The exemptions include:

### A. De Minimis Aid

Total of de minimis aid in any sector of economy granted to an individual undertaking shall not exceed EUR 200,000 over any period of three fiscal years, with the exception of road transport sector, where the ceiling is lowered to EUR 100,000. The rules for de minimis aid do not apply to the undertakings active in the fishery and aquaculture sectors, in the coal sector, and in the primary production of certain agricultural products, and they apply, with a certain number of additional conditions, to undertakings active in processing or marketing of agricultural products.

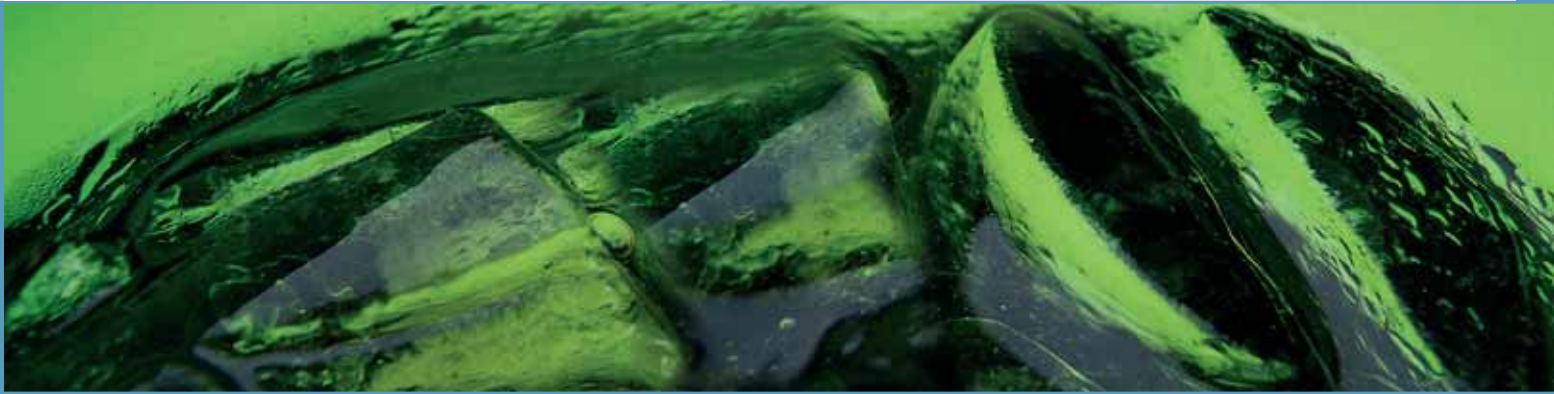
### B. Aid to Small and Medium Enterprises

Aid granted to small and medium-sized enterprises

in all sectors of the economy (excluding the production, processing or marketing of certain agricultural products, export-related activities and aid contingent upon the use of domestic over-imported goods) shall be exempt from the approval by the European Commission provided that it fulfils all the conditions of the respective EC Regulation, such as the maximum of participation of aid in the investment (that differs depending on the economic development of the region), types of investment (e.g. investment to tangible and intangible assets, consultancy and other services), etc. Such rules do not apply to large individual aid grants where: (i) total eligible costs exceed EUR 25 million for aid for investment, consultancy services, research and development, technical feasibility studies and licence costs, (ii) gross aid exceeds EUR 15 million for aid for investment and consultancy services, (iii) gross aid exceeds EUR 15 million for aid for research and development, technical feasibility studies and licence costs, and (iv) total eligible costs exceed EUR 40 million and gross aid for Eureka projects exceeds EUR 10 million.

### C. Training Aid

The conditions under which aid granted for training is exempt from the approval by the European Commission include direct reference to the relevant EC Regulation, maximum amount of participation of aid in the investment which differs according to the level of economic development and standard of living of the region where it is provided, types of training costs, etc. The exemption shall not apply if the amount of aid granted to one enterprise for a single training project exceeds EUR 1 million.



## D. Aid for Employment

Rules on state aid for employment cover the provision of aid for the creation of employment, recruitment of disadvantaged and disabled workers or for covering additional costs of employing disabled workers (save for coal, shipbuilding and transport sector, export-related activities and aid contingent upon the use of domestic over-imported goods). If the conditions envisaged by the relevant EC Regulation are met, the aid is exempt from the approval by the European Commission. The criteria are similar to those mentioned above under B. and C. In addition, state aid enjoys exemption if the employment created is linked to the conduct of a project of investment in tangible or intangible assets and the employment is created within three years from the investment's completion, if the application for the aid takes place before work on the project has started. The Regulation also contains categories of aid that are not exempted from the notification duty towards the European Commission within the meaning of Article 88 (3) of the Treaty (e.g. grant of aid to a single enterprise or establishment exceeding a gross aid amounting to EUR 15 million over any three-year period).

Applications for the aid from the state budget funds whether under certain scheme or individual are filed with the competent Ministry or to other competent entity entrusted with providing state aid. There is no legal title to the provision of state aid and its granting remains upon sole discretion of the government authorities.

## 2. Investment Incentives

The Slovak government also provides a specific type of individual state aid in accordance with the rules laid down by the Act on Investment Incentives. Investment incentives are provided for new investments and workplaces created in connection with such investment. However,

there is no legal title to the provision of investment incentives to the investor and it is solely upon discretion of respective government authorities and the European Commission if they do so.

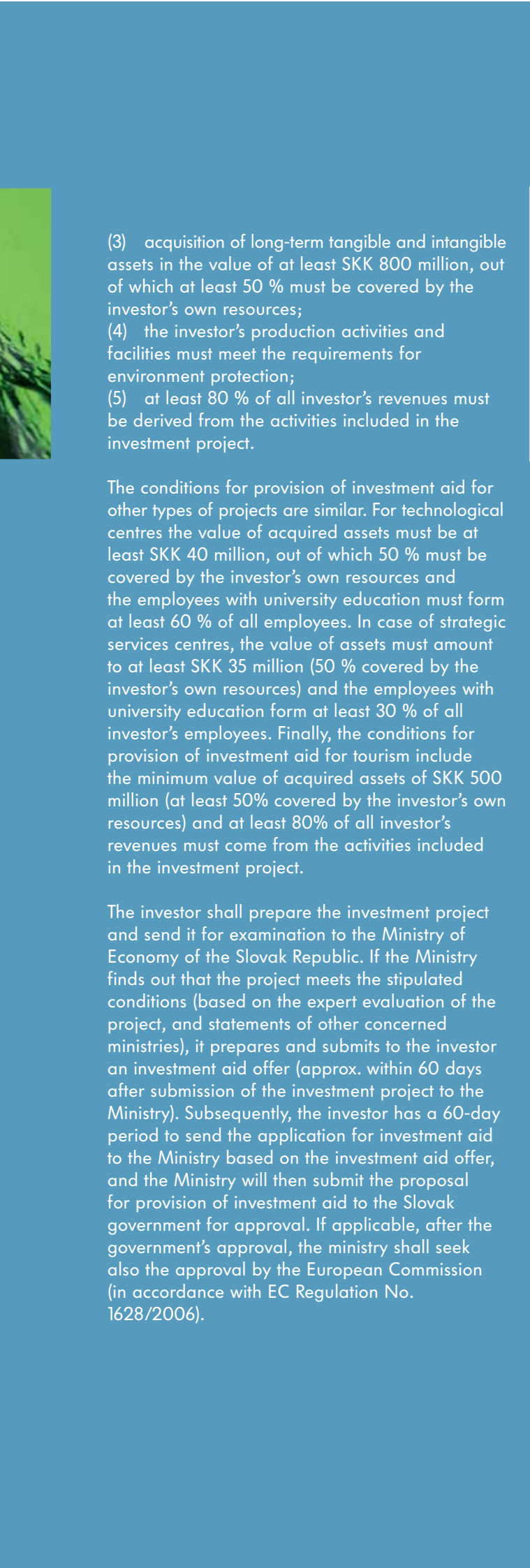
Recently, the Slovak government approved the Bill on Investment Aid, expected to enter into force on 1 December 2007, if approved by the Slovak Parliament. It will fully replace the Act on Investment Incentives. The new regulation shall support regions with the highest unemployment mainly in the sectors of industry production, and development of technological centres, strategic services centres and tourism centres.

The investment aid can be provided under the following forms: (i) subsidies for acquisition of long-term tangible and intangible assets; (ii) income tax relieves; (iii) contribution to the creation of a new working post (please see also part 3 below); and (iv) transfer or switch of real estates for the price lower than a general value of the respective property.

The Investment Aid Bill defines the terms as technological centre or strategic services centre, determines the scope of justified costs, and stipulates conditions for obtaining the investment aid, which differ depending on the type of the project. There is no legal title to the provision of investment aid to the investor, even if the conditions stipulated by law are met.

The conditions for provision of investment aid in industry production are as follows:

- (1) construction of a new operation unit, or extension of an existing operation unit, or diversification of production, or substantial change in production program;
- (2) acquisition of new production and technological facilities, which must be determined for production purposes in at least 60 % of their value;

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- (3) acquisition of long-term tangible and intangible assets in the value of at least SKK 800 million, out of which at least 50 % must be covered by the investor's own resources;
  - (4) the investor's production activities and facilities must meet the requirements for environment protection;
  - (5) at least 80 % of all investor's revenues must be derived from the activities included in the investment project.

The conditions for provision of investment aid for other types of projects are similar. For technological centres the value of acquired assets must be at least SKK 40 million, out of which 50 % must be covered by the investor's own resources and the employees with university education must form at least 60 % of all employees. In case of strategic services centres, the value of assets must amount to at least SKK 35 million (50 % covered by the investor's own resources) and the employees with university education form at least 30 % of all investor's employees. Finally, the conditions for provision of investment aid for tourism include the minimum value of acquired assets of SKK 500 million (at least 50% covered by the investor's own resources) and at least 80% of all investor's revenues must come from the activities included in the investment project.

The investor shall prepare the investment project and send it for examination to the Ministry of Economy of the Slovak Republic. If the Ministry finds out that the project meets the stipulated conditions (based on the expert evaluation of the project, and statements of other concerned ministries), it prepares and submits to the investor an investment aid offer (approx. within 60 days after submission of the investment project to the Ministry). Subsequently, the investor has a 60-day period to send the application for investment aid to the Ministry based on the investment aid offer, and the Ministry will then submit the proposal for provision of investment aid to the Slovak government for approval. If applicable, after the government's approval, the ministry shall seek also the approval by the European Commission (in accordance with EC Regulation No. 1628/2006).

### 3. Employment Support Scheme

The employment support scheme is considered to be a state aid. Contrary to the above-described forms of state aid, if the employer fulfils all the conditions stipulated by law for granting of the contribution under the employment support scheme, there is a legal title to its provision. However, the Slovak government sometimes decides on provision of this type of state aid within the investment incentives scheme while it releases some of the strict conditions set by the law.

#### A. Contribution for Employment of Disadvantaged Unemployed

A contribution for employment of disadvantaged unemployed persons may be provided to an employer who creates and maintains a new working position for 2 years and assigns this position to an unemployed person from a specific category such as long-term unemployed, youth unemployed, persons over 50 and disabled persons.

The amount of contribution and the time for which it is provided depend on the type of the region as to its eligibility for state aid and on the level of unemployment rate in the respective region. The contribution is provided on a monthly basis for a maximum of 24 months and may represent up to 100 % of labour costs connected with the newly created job, including the employee's wage and mandatory social contributions. There is a legal right to obtain this contribution upon the fulfilment of the conditions laid down in the Act on Employment Services.

## B. Contribution for Education and Training of Employees

Further contribution available to an investor is the contribution for the training of employees that may be provided to an employer who organizes training for his employees aimed at increasing their qualification and marketability on the labour market. The employer, as the beneficiary of the contribution, must employ such employee for at least 12 months following the completion of the training. The contribution, provided as a lump sum, may represent up to 90 % of the costs of education and training for each employee; there is no legal right to obtain the above contribution.

The contribution is supplied to the employer by a respective Labour Office on the basis of a written agreement entered into between the Labour Office and the employer.

## 4. Industrial Parks

Industrial parks represent a great opportunity for an investor to start its activities in Slovakia in a very short time and under favourable conditions. According to information published by SARIO (Slovak Agency for Development of Investment and Trade, [www.sario.sk](http://www.sario.sk)), there are currently 38 industrial parks spread throughout whole Slovakia ready for new investors.

Prospective investors may obtain a suitable plot of

land within an industrial park for a long-term rent for a token price since the land is usually either a state or municipality property. After a certain period of time, investors may get an option to purchase the land. The conditions in a particular case depend on the agreement between the investor and the founder of the industrial park which is usually the municipality or self-governing region.

Other advantages of the industrial parks include: (i) settled ownership relations, (ii) issued permits for use of land, (iii) finalised transport and technical infrastructures, (iv) technical and other (legal, accounting, logistic) counselling and assistance provided by the management of the industrial park, (v) provision of security services, and (vi) location in regions with skilled labour force.

In addition, Slovakia has introduced a special procedure for the acquisition of land to be used for locating a plant of an investor in case of any "significant investments". Within the procedure, the Slovak government is authorized to decide that an investment in the minimum value of SKK 1 billion (approx. EUR 30 million), and in certain regions of Slovakia with the unemployment rate being at least 15 % even an investment of SKK 500 million (approx. EUR 15 million), shall be regarded as an investment in the public interest and therefore the land on which the investment shall be implemented may be subject to expropriation proceedings.