

INVESTMENT INCENTIVES

Under the Act on Investment Aid, investors can apply for the following investment incentives:

- Cash grant for the procurement of fixed assets
- Corporate tax relief
- Cash grants for new jobs
- Transfer of real property at the price lower than the market value.

The legislation is aimed to boost investment in the regions with high unemployment rates and will particularly support investments in technological and strategic centers. It also supports investments in the tourism sector. Conditions on provision of investment aid vary depending on type of the investment, location and other parameters of the project.

Investment incentives granted by the Slovak Government are considered state aid and should therefore be fully compatible with the European Union State Aid regulations.

It should be stressed that:

- There are many detailed provisions and exceptions, which need to be taken into account when applying for investment incentives
- For a temporary period of 1 April 2009 to 31 December 2010 acquisition of assets from related parties form part of the eligible investment expenditure, which serve as a basis for the investment incentive amount. The investment incentive amount is determined on the basis of a percentage of the eligible investment expenditure
- It is crucial that one cannot start an investment project before receipt of a provisional approval to be issued by the Slovak Ministry of Economy
- There is no automatic entitlement to (tax) incentives or other grants under this legislation in Slovakia:
 - All incentives need to be agreed with the Slovak Government and have to be formally applied for and approved by the Government; and
 - All incentives are subject to limits set by the EU state aid law and in specific cases must be notified to the European Commission.

Different conditions are applicable for investments in the manufacturing industry, technology and strategic service centers and the tourism sector. For example, an investor in the manufacturing industry, submitting the investment project before 2011, can qualify only if he invests at least TEUR 13,278 in a region where the unemployment rate is lower than the average unemployment rate in Slovakia. If the unemployment rate in the respective region is higher than the average unemployment rate in Slovakia, at least TEUR 6,638.78 should be invested.

In 2009 Slovakia introduced a specific Investment Incentive Act for research and development centers. The aid will be provided to projects which deal with fundamental, industrial and experimental research. One can qualify for cash grants and tax relief.

Further, investors may apply for subsidies under the EU Structural Fund programs; however, only a few specific schemes are applicable as most funds are destined for local, regional and central authorities in order to improve infrastructure, education etc.

DOUBLE TAX TREATY NETWORK

The following treaties are in force:

Australia / Austria / Belarus / Belgium / Bosnia and Herzegovina / Brazil / Bulgaria / Canada / China / Croatia / Cyprus / Czech Republic / Denmark / Estonia / Finland / France / Germany / Greece / Hungary / Iceland / India / Indonesia / Ireland / Israel / Italy / Japan / Kazakhstan / Korea (Rep.) / Latvia / Lithuania / Luxembourg / Macedonia / Malta / Mexico / Moldova / Mongolia / Montenegro / Netherlands / Nigeria / Norway / Poland / Portugal / Romania / Russia / Serbia / Singapore / Slovenia / South Africa / Spain / Sri Lanka / Sweden / Switzerland / Tunisia / Turkey / Turkmenistan / Ukraine / United Kingdom / United States / Uzbekistan / Vietnam (Egypt / Libya / Syria – still to be signed or ratified or published)

For more information please contact:

KPMG Slovensko Advisory k. s.
Mostová 2
811 02 Bratislava
Tel.: +421 (0)2 59984 111
Fax: +421 (0)2 59984 333
www.kpmg.sk or www.kpmg.com

Mark Gibbins, Partner, e-mail: mgibbins@kpmg.sk
Tomáš Círan, Partner, e-mail: tciran@kpmg.sk
Branislav Ďurajka, Partner, e-mail: bdurajka@kpmg.sk

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2009 KPMG Slovensko Advisory k.s., the Slovak member firm of KPMG International, a Swiss cooperative. All rights reserved. Printed in Slovakia.



Tax Card 2009

with effect from
1 January 2009

Slovak Republic

TAX

CORPORATE INCOME TAX

- Standard (flat)19%
- Investment and mutual funds19%
- Pension funds19%
- Dividends^A0%

Tax depreciation periods

Depreciation is a tax deductible expense and is calculated for tax purposes at statutory rates. Both straight-line and accelerated methods of depreciation are allowed. Companies may have different depreciation rates for accounting and tax purposes. Intangible assets are depreciated in accordance with the accounting regulations. It is possible to interrupt the tax depreciation of tangible fixed assets.

Straight-line method

Category	Useful life	Annual depreciation
1 IT equipment, cars and some mechanical tools	.4	.1/4
2 Construction & agriculture machinery, TV receivers	.6	.1/6
3 Special technical & air condition equipment, TV cable	.12	.1/12
4 Pipelines, buildings, electric & telecom. network	.20	.1/20

Accelerated method

Category	Coefficient for the first year	Coefficient for subsequent years	Coefficient for increased residual value
1	4	5	4
2	6	7	6
3	12	13	12
4	20	21	20

In the case of the accelerated tax depreciation the allowed depreciation costs are calculated as follows:

First year: acquisition price/coefficient for the first year,
Subsequent years: 2 x residual value/coefficient for the subsequent years decreased by the number representing the period during which the asset has been depreciated.

Loss carry forward

- A tax loss incurred prior to a year in which a tax profit arises can be carried forward over five consecutive years starting with the first tax profit period. In contrast to rules which applied prior to 1 January 2004 the tax loss does not have to be carried forward in equal portions nor does a portion of the carried forward loss have to be reinvested in fixed assets.

- A company wound up without liquidation (e.g. on a merger or demerger), is allowed to transfer the right to carry forward its tax losses to its legal successor(s) to set off against subsequent taxable profits subject to certain anti-avoidance provisions.
- Each year's tax loss should be considered separately and can be carried forward over five consecutive tax periods.

Withholding taxes on income to non-residents

- For example:
- Dividends^A0%
 - Interest^B19%
 - Royalties^C19%

Withholding tax rates may be reduced by double taxation treaties (see the list overleaf). Withholding tax normally becomes payable when the income is paid or credited to the recipient.

VAT

There is a standard VAT rate of 19% and a reduced VAT rate of 10% which applies to medicines, certain other medical and pharmaceutical products and certain books and brochures. The currently effective VAT Act is intended to fully comply with appropriate EU legislation.

PERSONAL INCOME TAX

- Standard (flat)19%
- Taxable income includes employment income including benefits in kind and directors' remuneration, business and rental income, income from capital and other income. Certain exemptions may apply.

Tax allowances

- Personal tax allowance max. EUR 4,025.70 a year (no tax allowance if tax base exceeds EUR 31,489.92)
- Spouse tax allowance max. EUR 4,025.70 a year (no tax allowance if tax base exceeds EUR 47,592.72) or if spouse's income exceeds EUR 4,025.70)
- Tax allowance for obligatory social security and health care insurance contributions
- Tax allowance for voluntary pension contributions or savings max. EUR 398.33 a year
- 40% lump sum deduction from entrepreneurial income and rental income (with certain exceptions, if actual costs are not claimed)
- Tax allowances are deducted from the tax base.

Tax bonus

Tax bonus EUR 19.32 (until June 2009)/ EUR 20 (since July 2009) per eligible dependent child per month. Tax bonus is deducted from the tax liability.

SOCIAL SECURITY

Effective for 2009	Min. monthly comp. base in EUR*	Max. monthly comp. base in EUR**	Employee (in %)	Employer (in %)
Retirement insurance	295.50	2,674.90 / 2,892.12	4.0*	14.0
Disability insurance	295.50	2,674.90 / 2,892.12	3.0	3.0
Sick leave insurance	295.50	1,003.09 / 1,084.55	1.4	1.4
Unemployment insurance	295.50	2,674.90 / 2,892.12	1.0	1.0
Contribution into the Reserve fund of the SIC	295.50	2,674.90 / 2,892.12	0.0	4.75
Guaranty insurance	295.50	1,003.09 / 1,084.55	0.0	0.25
Injury insurance	no limit	no limit	0.0	0.8
Health care insurance	295.50	2006.17	4.0	10.0
TOTAL in %			13.4	35.2

* Minimum computation base likely to increase in October 2009.
 ** Maximum computation base valid until June 2009/from July 2009.

The health care insurance contributions paid monthly are regarded only as prepayments and are settled on annual basis, maximum annual base for health care insurance amounts to EUR 24,074.08. EU Social Security Regulations apply in Slovakia.

LOCAL TAXES ACT

The Local Taxes Act enables local municipalities to administer and collect a number of specified taxes, for example property tax. The local municipalities must impose an obligatory levy for municipal waste and minor construction waste. The higher territorial units are entitled to levy the motor vehicle tax.

A) A distribution of profit after tax in the form of dividends is in general not subject to withholding tax unless the distributed profit was derived prior to 1 January 2004, when rate of 19% would apply. Dividends paid after 1 April 2004 from a Slovak subsidiary to its EU Parent Company are in any event not subject to withholding tax, although these dividends may relate to the distribution of profits earned before 1 January 2004. The receiving (EU parent) company needs to possess a direct shareholding of at least 25% at the time of distribution. Dividends paid to a non EU parent in respect of profits derived prior to 1 January 2004 are subject to withholding tax at 19%, unless a double taxation treaty applies.

B) Interest paid by a Slovak resident company or Slovak permanent establishment to any associated company resident in another EU member state is not subject to withholding tax in the Slovak Republic provided that certain conditions are met (e.g. uninterrupted direct share holding of at least 25% for at least 24 months).

C) Royalties paid by a Slovak resident company or Slovak permanent establishment to any associated company resident in another EU member state is not subject to withholding tax in the Slovak Republic from 1 May 2006 provided that certain conditions are met (e.g. uninterrupted direct share holding of at least 25% for at least 24 months).