

Doing Business Guide

SLOVAKIA

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1. Facts and Figures Slovakia

The surface of Slovak Republic is 49,035 sqm and it has approximately 5,4 million inhabitants.

In 1998 Slovakia's gross domestic product amounted to SKK 714,4 billion, with a real growth rate of 4,4%. The per capita income in Slovakia of approx. SKK 130,000. The country's budget deficit of approx. SKK 19,2 billion was equivalent to 2,7% of the GDP.

Slovakia's major foreign trade partners are the Member States of the European Union. Approximately 42,9% of the country's imports come from the EU (approx. 33,3% from others Eastern European countries) and approximately 48,5% of Slovakia's exports also go to EU Member States (approx. 32% go to others Eastern European countries).

The federal tax revenues are made up to about 14 % from taxes on wages, about 16 % from taxes on corporation and about 38 % of VAT.

In 1998 the rate of inflation were 5,6 % .

The unemployment rate was 4,5% (according to Eurostat calculations).

GDP per inhabitant in US\$ 1998	8 940
Economic growth real 1998	4,4
Inflation 1998	5,6
Unemployment rate 1998	12,5
Social quota 1995 1)	-
Fiscal charges quota 1997 2)	-
Public debt 1998 3)	2,7

1) Social spending in % of GDP

2) Taxes and social security contributions in % of GDP

3) Public debt in % of GDP

2. Company Law (Obchonné právo)

Under Slovakian Company Law a clear distinction between partnerships and corporations is made. In addition to these two forms of companies, there are co-operative associations and non-profit associations which are – except in special cases – only of low-key importance in business life.

2.1. Partnerships (*Osobné spoločnosti*)

A partnership is the joining of two or more (physical or legal) persons for the purpose of the joint operation of a company. Partnerships do not have a juridical personality of their own, therefore a partnership cannot become subject of rights and duties. Only the partners can hold these rights. The formation of a partnership requires a partnership agreement to be concluded between the future partners. This agreement is done in writing, but is in principle not bound to a special form. The members of the partnership are the owners of the company run by the partnership. A change of partners requires the previous consent of all the members of the partnership. The partners, themselves are called and authorised to manage and to represent the partnership but they are also directly liable for the liabilities incurred by the partnership. A clear distinction, however, is made between the partnership assets and the personal, private assets of the individual partners. The term partnerships encompasses civil-law partnerships (Občianské združenie), general partnerships (Verejná obchodná spoločnosť, v.o.s.), limited partnerships (Komanditná spoločnosť, k.s.), dormant partnerships (Tiché spoločenstvo).

2.1.1. General Partnership (v.o.s.)

A general partnership does not represent a legal entity, and therefore no legal personality of its own. In many areas, however, a general partnership (v.o.s.) is dealt with as if it had legal capacity itself. The following characteristics refer to the relevant provisions under the trade law - it is however possible to deviate from these provisions and to agree to different regulations in the partnership agreement.

The most important characteristics of the v.o.s. (General partnership) are:

- The partnership is set up with the conclusion of a partnership agreement;
- The operation of a special kind of commercial enterprise under a uniform name “Firma” (firm name);

- The partnership has to be registered in the Commercial Register (Obchodný register), a public register in which the companies' most important features are entered and the inspection of which is open to everyone;
- All partners have unlimited liability with their whole assets (which also includes all private assets) for the debts and liabilities incurred by the v.o.s..
- The management of the partnership is incumbent on every individual partner personally;
- Every partner is entitled to act as representative of the company.

2.1.2. Limited Partnership (Kommanditná spoločnosť, k.s.)

The main difference between the limited partnership (Kommanditná spoločnosť, k.s.) and the general partnership (Verjná obchodná spoločnosť, v.o.s.) is that only one (at least one) of the partners in a limited partnership is fully liable (the general partner – Komplementár). The remaining partners (at least one) are liable only up to the amount of their capital contribution (limited partner – Kommanditista). The limited partners are excluded from the business management of the partnership and are not authorised to represent the company. The limited partnership is mainly used for certain participation models in which a limitation of liability is necessary.

2.1.3. Silent Partnership (Tiché spoločenstvo)

The silent partnership (Tiché spoločenstvo) is a mere internal partnership and is therefore not represented to the outside world with a name of its own and is not registered in the commercial register. The main objective of a silent partnership is the investment and/or raising of capital. The silent partner may participate in the profits as well as in the losses of the partnership. It may however be set forth in the partnership agreement that the silent partner shall be excluded from a participation in the losses. In the latter case there are distinct similarities between the silent partnership and certain forms of loans.

2.1.4. Civil Law Partnership (Občianské združenie)

This legal form of a commercial entity is based on the provisions of the Slovakian Civil Law. The partners of Civil Law Partnership can be physical and also legal persons. Civil code partnerships are mainly established as single joint ventures or working groups for individual large-scale projects, generally in the fields of systems engineering, plant engineering and construction, and for large building projects. The civil code partnerships under Slovakian Law can be set up

individually, the partners' liability is personal and unlimited, and the partnership is not entered into the Commercial Register.

2.2. Corporations (*Kapitálové spoločnosti*)

In corporations the main focus is on the paid-up capital, the natural persons representing the partners are of second importance. Corporations are juridical persons which hold a legal personality of their own, independently of the individual partners. As it cannot act by itself, a corporation always needs to have natural persons who act on its behalf in order to execute business. In contrast to partnerships the partners of corporation are in principle do not liable for the debts incurred by the corporation.

2.2.1. Stock Corporation (Akciová spoločnosť, a.s.)

A stock corporation is characterised by:

- A juridical personality of its own;
- Its capital stock must be broken down in shares and must amount to at least 1,000.000,- SKK , approx. Euro (.) 23,600,- ;
- The shareholders are not liable for debts incurred by the stock corporation.

The shareholders of a stock corporation can be both natural and juridical persons. Evidence of a participation in a stock corporation is the share owned by the shareholder. Shares are securities, which are proof of the holder's share in the capital stock and consequently the bearer's equity interest in the company. The provisions for the formation as well as the articles of incorporation and the by-laws of a stock corporation are laid down in detail in the Slovakian Stock Corporation Law. Every stock corporation has to be entered in the Commercial Register.

As the stock corporation as such is not capable of acting, certain bodies have to be appointed for the management and representation of the stock corporation.

The body responsible for the management is the managing board, which is appointed by the supervisory board for a maximum period of five years and can be re-appointed several times. Certain transactions are subject to approval by the general meeting of all shareholders. The general meeting of the shareholders elects the supervisory board and its main functions are to supervise the management board and to call the shareholders meeting. At the shareholders meeting, which has to take place at least once a year, the balance sheet auditor is elected and the annual financial statements are submitted and approved of. If

necessary, the supervisory board also has the power to call extraordinary general meetings.

The stock corporation is, apart from being the most complicated form of organisation under Slovakian Company Law, also the most expensive one, due to numerous legal provisions.

2.2.2. Limited Liability Company (Spoločnosť s ručením obmedzeným, s.r.o.)

A limited liability company is a juridical person, its stated capital shall be comprised of the individual contributions of the individual shareholders. The amount of the original contributions may be determined differently with respect to individual shareholders. The shareholders are in principle not liable for debts incurred by the limited liability Company. Under Slovakian law, it is much easier to form a limited liability company than to form a stock corporation. In contrast to a stock corporation, however, any transferral of shares in a limited liability company has to be recorded in notaries form, and the transferability of shares is thus restricted. Therefore the limited liability Company is not so well suited for organisation in which the shares are distributed among a large, frequently changing number of shareholders.

Minimum capital requirements for the formation of a limited liability company amount to SKK 200 000, - and it is approx. Euro (.) 4,710, -. A limited liability company comes into legal existence when it is entered in the Commercial Register. In general one or more managing executives jointly manage the affairs of limited liability companies, sole representation is however also possible. The most important body of any limited liability company is the general meeting of all shareholders, which may also give instruction to the management and the supervisory board. At the annual meeting, the shareholders decide on the audit and approval of the financial statements as well as on the release of the managers. As it has the right to give instructions to the management, a limited liability company's general meeting has the opportunity to exercise a much stronger influence on the management of the day-to-day business than a stock corporation's general meeting of shareholders. Most limited liability companies have no supervisory board. The main function of the supervisory board, if established, is the supervision of the management.

For certain business purposes a mixture between a partnership and a corporation can be of interest, in such cases a limited liability company is frequently combined with a limited partnership. This form is sometimes chosen to combine the advantages of a limited partnership (k.s.) with that of the limited liability of a

corporation (s.r.o.). In such cases the limited liability company is typically the sole general partner, having full liability.

3. Accounting, Auditing

3.1. Accounting

The Slovakian accounting and reporting was adapted to the 4-th and 7-th. EC Directive by the Accounting Act of 1990.

There are also special regulations for banks, insurance companies, investment funds or some other branches.

Financial statements have to be prepared at the end of each financial year. All assets, accruals, liabilities, deferrals, revenues and expenses must be included, the financial statements shall give a true and fair view of the entity's net worth and earnings situation. The management of the company is responsible for the preparation of the financial statements, which have to be done within 3 month after the balance sheet date.

The financial statements consist of the balance sheet, the profit and loss statement and the notes.

Every consolidated corporation has to file its consolidated financial statements with the commercial register, some corporations (e.g. stock companies, large limited liability companies) must publicise their consolidated financial statements in the newspaper „Obchodný vestník“.

Consolidated financial statements have to be prepared for a group of companies if certain limits of total assets, sales and number of staff are exceeded. The consolidation rules are stipulated in Accounting Low.

3.2. Auditing

Corporations, which exceed two of the three above-mentioned criteria:

1. total assets of more than SKK 20 million
2. turnover of more than SKK 40 million
3. more than 20 staff,

in the two financial years ending before the actual balance sheet date have to be audited in Slovakia. Also consolidated financial statements also have to be audited.

4. Tax Law

4.1. Taxes on Earnings (*Daň z príjmov*)

With respect to the tax treatment of earnings, Slovakian Tax Law differentiates between natural and juridical persons. The income of natural persons is subject to income tax (*Daň z príjmov fyzických osôb*) the income and earnings of juridical persons are subject to corporate income tax (*Daň z príjmov právnických osôb*). Further differentiation is made with respect to the scope of the liability to pay taxes. Persons who have not set up residence or permanent establishment in Slovakia have limited tax liability and are only taxable with their special income from sources in Slovakia.

Persons resident in Slovakia have unlimited tax liability and are consequently subject to Austrian income tax and/or corporate income tax on their whole world-wide income.

4.1.1. Taxes on Individual Income (*Daň z príjmov fyzických osôb*)

Only natural persons are subject to individual income tax. Partnerships are not directly covered for income taxation purposes but rather the individual partners are subject to taxation in line with their share in the partnership's profit.

The following income derived by a person with unlimited tax liability from sources in Slovakia is subject to income tax:

- 1) Income from employment;
- 2) Income from self-employment;
- 3) Income from agriculture and forestry;
- 4) Income from trade or industry;
- 5) Income from capital assets;
- 6) Income from letting and leasing;
- 7) Other income (such as speculative profit, sale and alienation of certain participation, etc.)

If the income is not derived from one of the above types of income the respective person is not liable to the payment of income taxes. Apart from taxable income, there are certain clearly defined types of income, which are tax-exempt under Slovakian law.

For tax assessment purposes, a person's income is in a first step we subtract expenses from income for certain type of income (2-7), we determine the certain

tax assessment bases of income (2-7) and then all tax assessment bases are added up. Under certain conditions losses are deducted for determining the tax assessment base. In the third step we added up the income from employment (1) from which we subtract deductions items. The resulting amount thus achieved is this person's taxable income, and serves as the basis for income tax assessment. The income tax itself is a progressive tax and the following tax rates are currently applied in Slovakia:

income over SKK	income to SKK	Tax rate
-	90 000	12%
90 000	150 000	10 800 SKK+20% from tax base over 90 000
150 000	240 000	22 800 SKK+25% from tax base over 150 000
240 000	396 000	45 300 SKK+30% from tax base over 240 000
396 000	564 000	92 100 SKK+35% from tax base over 396 000
564 000	1 128 000	150 900 SKK+40% from tax base over 564 000
1 128 000	and more	376 500 SKK+42% from tax base over 1 128 000

The individual income tax to be paid is calculated by the competent tax office on the basis of the income tax return submitted by the taxpayer (tax assessment).

This income tax return has to be handed in by March 31-st of the following year and has to contain all the income derived by this person within the respective calendar year. It is however possible to extend the time for the filing of the returns, particularly when the taxpayer is represented by a tax consultant.

Apart from this type of income taxation there is a special type of taxation for income from employment, for special types of income from capital income and for special types of income drawn by persons with limited tax liability. If a person is in gainful employment, the income tax to be paid by the individual is in principle calculated on a monthly basis by his employer, the amount determined is subtracted from the salary, retained and paid over to the respective tax office. Consequently the individual employee's major tax affairs are settled by his employer and he only has to take care for income-related expenditure, special allowances or extraordinary financial burdens he wishes to deduct, or for income derived from other sources.

For the most general types of capital income (such as dividends, profit shares derived from limited liability companies, and savings deposits) normally the debtor of the capital income is obligated to withhold a capital-yield tax of 15%. Capital yield tax has to be paid by person obligated to withhold to the fiscal authorities. A natural person thus satisfies the capital-yield tax and therefore, the respective capital income derived need not be assessed again for tax computation purposes.

Certain income derived by persons with limited tax liability (such as for activities pursued in Slovakia by authors, artists, consultants, etc.) is subject to a withholding tax of 25%. The person who owns the fee to the person with limited tax liability and has to be paid to the tax office directly from the debtor of the fees shall withhold this tax. As to the amount of the withholding taxes there are certain restrictions laid down in the individual double taxation agreements (see below).

4.1.2. Corporate Income Tax (Daň z príjmov právnických osôb)

The corporate income tax is the income tax to be paid by corporate entities, mainly corporations. With respect to the determination of income the provisions contained in the Individual Income Tax Law are also applicable to juridical persons. The tax rate for capital income is 29%. The tax burden on the distribution of corporations (29% capital income tax to be paid by the corporation and 15% capital-yield tax to be paid by the beneficiary of the capital yields) is therefore similar to that on profit shares in partnerships in the top progression level.

On the basis of the tax return submitted the competent tax office calculates and levies the corporate income tax. Losses can be set off against future profits if the following conditions are fulfilled:

- to apply loss just once,
- to apply loss from at best last three losses before the year we achieve profit,
- the sum of applying losses have to be used for providing tangible fixed assets,
- loss is depreciated for max. 5 years.

Income from holding participation, that is any type of profit share derived from a participation of a corporation in another Slovakian corporation and/or commercial co-operative are withheld a capital-yield tax of 15%.

The income from holding participation in foreign corporations is taxable according International tax Law (see below).

4.1.3. International Tax Law (Medzinárodné daňové právo)

Persons with limited tax liability are only taxable with their special income from sources in Slovakia. Persons with unlimited tax liability are subject to taxation on their world-wide income. In order to prevent double taxation, a relatively tight network of double taxation agreements has been set up. The majority of these agreements are more or less in line with the OECD- model agreement. Besides, there are a number of older agreements and some treaties, which are not oriented on the model agreement. The major part of these agreements is almost exclusively limited to taxes on earnings. A table specifying the current double taxation agreements with the respective laws on taxation at source is included in the attachment.

For states with which no double taxation agreements have been concluded, the income is taxable by Slovakian Tax Law.

4.2. Value Added Tax (Daň z pridanej hodnoty)

Any entrepreneur who carries out supplies or renders services within Slovakian territory is subject to the payment of value added tax, which is collected from customers and paid over to the fiscal authorities. Entrepreneurs can in general recover input tax paid to suppliers from the fiscal authorities. The end consumer who cannot benefit from any deduction of input value added tax, however, has to bear the value added tax charged on him.

Transactions taxable with value added tax comprise:

- the supply of goods and services,
- the supply of building, constructions,
- real estate transfer,
- withdrawal of goods for non-business purposes if the goods gave rise to a refund of input VAT,
- use of goods and services for non-business purposes in Austria,
- The importation of goods with exception of imported goods, which are duty-free according Duty Low.

Whether the supply of goods or the delivery of any service is subject to Slovakian value added tax depends on whether the place of performance is located within Slovakian territory.

The standard VAT rate in Slovakia is 23%.

A VAT rate of 10% is imposed on

- the supply of certain foodstuffs, books, newspapers and other goods listed in an appendix to the Slovakian VAT Law,
- the leasing of land and buildings for residential purposes (including hotel accommodation),
- services rendered e.g. by artists, cinemas, theatres, musicians, museums, broadcasting and television companies,
- transport of passengers.

Examples for supplies and services which are VAT exempted are

- most of banking, post and insurance services,
- small entrepreneurs with a turnover not exceeding SKK 750,000 in the last three months.

4.3. Other Taxes

4.3.1. Inheritance and gift tax (Daň z dedičstva a darovania):

Any inheritance and/or any gratuitous legacy among living persons is subject to inheritance and gift tax. The tax rate varies between 1% and 40% and depends both on the degree of kin between the testator/donee and the heir/donee beneficiary as well as on the value of the inheritance or gift.

4.3.2. Real Estate Transfer Tax (Daň z prevodu nehnuteľnosti)

If title to real property located in Slovakia is transferred, a tax on real estate transfer of 1-20% of the purchasing price and the degree of relationship.

4.3.3. Tax based on Standard Fuel Consumption of Vehicles (Cestná daň)

This tax is imposed on cars and vehicles, which are used for undertaking. The amount of tax for cars depends on cubature and for vehicles depends on capacity – from 1 600 SKK to 61 200 SKK (38 Euro – 1 440 Euro).

5. Labour and Social Security Legislation (Pracovné právo a sociálne zabezpečenie)

5.1. Labour Law (Pracovné právo)

Slovakian labour legislation is covered by a number of individual acts and ordinances.

The basis of every employment relation is a labour contract, which may either be set up in writing or in verbal form. The minimal requirements to be fulfilled by any employment relation are contained in collective bargaining agreements, concluded for every sector of industry and business, and signed by representatives of both employers and employees. Besides, agreements relating to particular plants or companies may be negotiated and concluded between the employer and the employees' representatives.

The working hours per week are in general limited with 42,5 hours a week.

Each worker and employee is entitled to paid vacation of at least 20-25 working days per year. Apart, payment of wage is also continued during illness, the respective legal provisions. A employee is thus entitled to receive no full reimbursement during a period of illness.

In case the employer terminates the employment relation, the employee is entitled to receive redundancy payment, similarly, any employee who has reached retirement age is entitled to receive termination payment. In the case of dismissal or retirement, the employee is therefore entitled to an amount equal to two monthly payments.

Under Slovakian law, summary dismissals, which result in the loss of the right to a any termination or redundancy payments are only possible if the employee has provably committed a grave offence.

5.2. Social Security System (Sociálny systém)

In Slovakia there is a compulsory social insurance system, which covers unemployment insurance, health insurance and old-age pension insurance. The employees pay social security contributions in part by employers and in part themselves. The amount to be paid is, up to a specified maximum amount, determined as a percentage of the employee's total monthly earnings (currently approximately 12% of the salary).

In Slovakia, every employee is entitled to draw an old-age pension after having worked for a specified period of years, and after having reached retirement age. Normal retirement age is 60 years for men and 57 years for women.

6. Other Important Regulations

6.1. Trade and Industry Legislation (*Obchodné právo*)

Almost every activity that is independent in nature and is performed regularly with the intention of realising a profit or any other economic advantage is considered to be of a business nature and is subject to the term and conditions of the Slovakian Trade Regulation Act. Among the activities not covered by this legislation count most of the independent professions, banking, mining, agriculture and forestry.

The Trade Regulation Act includes provisions on the necessary certificate of qualification, the commencement, the exercise, and the termination of an industrial or commercial activity. These provisions were set up in order to guarantee the quality of the products as well as the qualifications of the persons carrying on a trade or industry. Under Slovakian legislation industrial and commercial activities are subdivided into three categories:

Crafts (Remeslá):

Apart from fulfilling the general legal and professional requirements (such as Slovak, at least 18 years of age, no bankruptcy, no previous conviction, etc.), the person wishing to carry on a craft has to hold a special qualification certificate (master craftsman's qualifying examination, proof of the relevant professional or school education, etc.).

Licensed Trades:

In order to be allowed to carry on such a trade, the respective person has to hold a certificate of qualification and apply with the competent administrative authority for a licence to carry on a trade. There are, on the one hand, trades and industries (such as the hotel and restaurant business, commercial enterprises, advertising agencies, etc.) which can be taken up immediately upon application for a licence (*Koncesované živnosti*). On the other hand there are trades and industries (such as the production of medical preparation, chemical laboratories, etc.), which can only be taken up upon receipt of the permit to carry on a trade

or business, granted by the competent administrative authority (Ohlasovacie viazané živnosti).

Free Trades:

No special qualification certificate or proof of qualification is necessary to carry on a free trade in Slovakia.

Apart from these three main types of trades and industries, there are activities, which are not regarded as a fully-fledged trade or business, but rather as a sub group of a certain trade. Consequently a person who e.g. exclusively makes shirts is no tailor and therefore needs not to hold a master craftsman's certificate but only has to prove that he has successfully completed his apprenticeship or has any other relevant professional experience in order to be able to carry on his business.

Content and scope of the right to carry on a certain trade or business is defined in the respective trade licence for trades which can be taken up immediately upon application, or in the trade permit for trades which can only be taken up upon receipt of such permit. The provisions contained in the Slovakian Trade Regulations Act were originally drawn up to restrict access to individual trades and businesses, in times of increasing internationalisation and liberalisation these regulations are, however, constantly being relaxed.

6.2. Antitrust Law (*Ochrana hospodárskej súťaži*)

The forming or the acquisition of corporations, as well as mergers and conversions of companies may be subject to antitrust provisions.

Under Slovakian Antitrust Law two is one type of concentrations:

- Mergers which need to be notified and to be filed for registration with the Cartel Court.

If the participating companies' revenue sales total at least SKK 300 million within the fiscal year preceding the merger has to be notified to the Cartel Court and need to be filed for registration.