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Taxing immovable assets in Slovakia

The Slovak Income Tax Act provides favorable conditions for investors. The tax regime of long-term tangible assets is characterized by short depreciation periods, especially with regard to financial lease. The following article gives an overview of accounting and tax treatment of immovable assets.

Long-term tangible assets are assets whose useful life is longer than one year. Long-term tangible assets include, among others, immovable assets such as land, buildings, flats and non-residential premises.

Accounting depreciation of immovable assets
A company is not allowed to include costs of acquisition of long-term tangible assets in tax costs as a lump sum – it must be done gradually in the form of depreciation.

The actual rate of wear of an immovable asset is expressed by accounting depreciation. Accounting depreciation is calculated from the input price of immovable assets recorded in accounting and can be accounted for in respect to each month of use of the immovable asset, starting from the point it was put into use. Thus, the amount of depreciation accounted for has an impact on profits or losses for the reporting period.

Tax depreciation of immovable assets
A special category is tax depreciation of immovable assets. The calculation of income tax does not take into account depreciation accounted for – tax depreciation of immovable assets can be applied as a tax cost.

As for other types of long-term tangible assets, a straight-line or declining balance approach can be applied to the depreciation of intangible assets. With a declining-balance approach, a larger portion of the input price of the immovable assets can be included in the costs for the first years of its use than with a straight-balance approach. The depreciation method must be determined at the time of acquisition of the immovable assets and cannot be changed during the period of depreciation. Tax depreciation can be applied to the costs if the immovable assets appear in the company records in the end of the tax period.

In case of an immovable asset acquired after January 1, 2012, depreciation in the first year will be calculated a portion of the entire year corresponding to the number of months of use of the immovable asset in the year of its acquisition.

Until the end of 2011, the company could also apply year-long depreciation of an immovable asset if this asset had been acquired during the year (even during December). However from the beginning of 2012, new rules apply to the application of tax depreciation in the year of acquisition. In case of an immovable asset acquired after January 1, 2012, depreciation in the first year will be calculated a portion of the entire year corresponding to the number of months of use of the immovable asset in the year of its acquisition.

Immovable assets (buildings) are included in the 4th depreciation group; their period of depreciation is 20 years. From tangible assets in the form of buildings, the following detachable parts can be separated for independent depreciation:

- computer network wiring (2nd depreciation group, period of depreciation: six years)
- passenger and freight lifts, escalators and moving staircases, air-conditioning systems (3rd depreciation group, period of depreciation: 12 years)

Land is excluded from depreciation. In the case of land, we would like to note that if the land is sold, the potential loss on such a sale is not a tax-deductible cost. However, the potential loss on the sale of other immovable assets is a tax-deductible cost. Of course, any profit on the sale of immovable assets is subject to income tax.

Interruption of depreciation of immovable asset
One of the best possibilities for the optimization of tax liability is the interruption of tax depreciation on a tangible asset. The company is not obliged to apply tax depreciation on this cost in each tax period. On the contrary, the company has the right to interrupt depreciation for one or more tax periods without losing the right to include depreciation in tax costs in the following period.

Financial lease
In the case of an acquisition of a tangible asset under lease contract with agreed right to purchase the leased asset (financial lease), companies may use a period of depreciation of immovable assets. This period was reduced from 20 years to 12 years on December 31, 2011. Financial lease represented one of the possibilities for optimization of tax liability.

A change in financial lease was brought by the amended Income Tax Act that unified the conditions of depreciation of tangible assets acquired in the form of financial lease with other forms of acquisition of tangible assets, effective from January 1, 2012. Assets acquired in the form of financial lease will also be depreciated during a period determined by the appropriate depreciation group. The possibility of faster inclusion of depreciation of immovable assets in costs no longer exists.

Sale and lease back
Some leasing companies offer so-called sale and lease back schemes. If a company has money tied up in an immovable asset, it can sell the immovable asset to a leasing company that will subsequently lease it back to the company. These schemes were popular because, in addition to recouping this tied up money, sale and lease back schemes allowed faster inclusion of depreciation of tax costs.

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