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Milestones for future tax reform in Slovakia

The tax and contribution reform in Slovakia that was prepared (and was subject to approval procedure) in 2011 was a reaction to deficiencies in the Slovak tax and contribution system and was to improve the business environment in Slovakia. The reform was aimed at reducing the high administrative burden (multiple reporting of the same data to several institutions), time intensiveness and the costs of fulfilling tax and contribution obligations by undertakings.

Milestones of the suspended tax and contributions reform
The first step in the reform was the establishment of a financial Directorate from 1 January 2012, the merger of tax and customs authorities and a reduction in the number of tax authorities. This first step was related to the change of information systems of the Financial Directorate. Further steps in the tax administration reform are planned from 1 January 2013 (merger of tax administration with the social and health insurance companies).

An important part of the planned reform was the introduction of the so-called super-gross wage from 1 January 2012 as a basis for the calculation of taxes and contributions of employees to the social security scheme. One social contribution and a uniform basis of assessment for all types of individuals are to be introduced (instead of the present 6 bases of assessment). It should result in a considerable administrative simplification of the tax and contribution system, but the tax and contribution burden would not be decrease significantly.

Further steps in the reform designed from the year 2013 should be a simplification of tax and contribution payments in the form of uniform clearance of taxes and social contributions using one form. This would be a simplification of the bases of assessment and introduction of a single deadline for payment of taxes and contributions. In the process of fulfilment of tax and contribution obligations the communication should occur with a single institution (Financial Authority), prevalently in the electronic form.

After a motion of censorship on the right-wing government headed by the Prime Minister Iveta Radičová in October 2011 and the announcement of pre-mature elections in Slovakia, the tax and contribution reform was suspended.

What we might expect from the future government
The tax and contribution reform should have been the most extensive and biggest reform since the introduction of a uniform tax in Slovakia in 2004. In view of the fact that the change and unification of the contribution and tax system had been declared by both the left-wing government of Robert Fico since 2008 and by the exiting right-wing government of Iveta Radičová, the new government is expected to resume the implementation of the proposed reform with major or minor changes, irrespective of the results of elections in March 2012. Regardless of ideology it seems to be widely acknowledged that one of Slovakia's chances of retaining and even attracting new investors is a simplification and clarification of the tax and contribution system and a reduction in administrative outlay in the tax and contribution system.

Other steps to be taken by the future government with regard to tax policy can only be judged in terms of the agendas of individual political parties that have a real chance of forming a new government after the parliamentary elections in March 2012. If a right-wing government is formed after the elections the maintenance of a flat income tax rate of 19% and the maintenance of VAT at the level of 20% (decreased rate of 10%) can be expected, however, excise taxes will probably be increased. The potential formation of a left-wing government might bring, besides the probable increase of excise taxes, an increased income tax rate for individuals with an annual income above EUR 33,000 (at a tax rate of 25%), as well as higher taxation of income of legal entities with a tax base higher than EUR 30 million (at a tax rate of 22%).

Practical needs of the tax administration
Irrespective of the results of the parliamentary elections, one of the first steps of the new government, apart from the consolidation of public finance, must be the consolidation of functioning of the Financial Administration systems that have been operating with huge problems since January 2012. From 1 January 2012 a major part of tax entities should have been communicating with the tax administrator exclusively by electronic means; however, the date was postponed for a second time (first to 1 April 2012 and then to 1 January 2013). The deployment of the new tax information system in the period of merger of tax and customs authorities was apparently not planned for the most appropriate time. Tax authorities currently have problems, not only with the issuance of confirmations and decisions for tax entities, but also with the refund of VAT overpayments within the period prescribed by the law.

Despite such inefficiencies based on the World Bank´s analysis "Doing Business 2012", the situation in Slovakia in the area of foreign investment inflow is not so bad. According to this analysis Slovakia has the best conditions for business among all the countries of Central and East Europe (Slovakia was placed 48, Hungary 51, Poland 62 and Czech Republic 64). It is also proven by the fact that Slovakia was able to attract and place in various regions more than 26 foreign investments in different regions in the year 2011, which is the largest number for the last three years.

In any case, the new government will have to do a lot of work in order to stabilize the political situation, maintain the economic position of Slovakia and make it even more attractive for foreign investors.

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