

Focus on tax incentives

In last year's issue we informed you about the planned amendment to the Act on Investment Aid. This amendment has been adopted and came into force on 1 August 2011. Compared to its draft it contains several positive changes. A summary of these changes along with currently applicable rules follows below.

The provision of state (investment) aid is regulated by the Act No. 561/2007 Coll. on Investment Aid, which stipulates basic rules and conditions for its provision as well as the application and approval process. Investors can apply for such aid if they meet the conditions set by law, however, there is no legal claim to the aid. On the other hand, factors like investment size, number and educational structure of new jobs, location etc. can increase the chance of success. Investment aid may not be granted if the investment has already been launched. Thus it is important to explore the possibilities in advance.

Overview of the most significant changes approved last year

The amendment heavily discussed last year has introduced many more positive changes than originally expected.

One of the most appreciated is the possibility to opt for a fixed coefficient of 0.8. In other words, a minimum relief of 80% from the corporate tax liability has been introduced. Moreover, the period for making use of a tax relief has been extended to 10 years.

The possibility to change the investment project and incentive parameters after the aid approval has been introduced, as it was

often impossible to realize the investment in its planned scope. The impractical condition that tangible assets may not be acquired from related parties has been deleted.

Companies established already in Slovakia should not be discriminated against new investors any more.

The minimum investment amounts have been decreased and advantages for SME have been introduced. The investment does not have to be realized according to the Public Procurement Act any more. The period for realization of big investment projects (eligible costs over EUR 50 million) has been extended from the current 3 to 5 years.

Last but not least, the condition that the investment aid may not be provided to an applicant who has already been granted investment aid under the old law has been deleted. Incentives are available also to companies established in Slovakia long term in order to avoid discrimination.

The conditions for granting the state aid have become more favorable and, as a result, in November 2011 the government approved the last package of projects. State aid will be granted to nine companies: tire manufacturer Continental Matador Rubber s.r.o. will receive a tax relief of max. EUR 14.6 million; Gallai&Wolff a subsidy of EUR 3 million for the acquisition of fixed assets for the construction of a plant and a corporate income tax relief of EUR 370 thousand; Secop a subsidy of EUR 4.4 million for the acquisition of fixed assets, a contribution of EUR 1.4 million for newly created jobs and a corporate income tax relief of EUR 1.7 million for launching the production of a new product platform; Aspel Slovakia was approved state aid of EUR 1.7 million for the extension of production for the automotive

industry; Plastiflex Slovakia will be granted support of EUR 1.6 million for the extension of its plant; Celltex Hygiene will get a subsidy of EUR 2.5 million for the acquisition of fixed assets and a corporate income tax relief of EUR 1.5 million for the construction of a new plant; Johnson Controls International will be granted a subsidy of EUR 1 million for the acquisition of fixed assets for the extension of its plant in Námestovo, a contribution of EUR 1.8 million for newly created jobs and a corporate income tax relief of EUR 2.8 million; Behr Slovakia, s.r.o. will receive state aid of EUR 4.24 million for the construction of a new plant and, finally, Sungwoo Hitech Slovakia will be granted a corporate income tax relief of EUR 3 million for the extension of its plant in Žilina. The projects filed later will be approved by the government of Robert Fico.

Ceilings for the size of aid

The maximum aid amount depends on the region in which the investment is to be realized:

- Western Slovakia - 40 %
- Central Slovakia - 50 %
- Eastern Slovakia - 50 %

Table 1 / Minimum investment amounts have been decreased

Unemployment rate	Minimum investment amount	Amount/proportion of new technology equipment	Min. investment amount covered by equity
under Slovak average	EUR 14 million	60%	EUR 7 million
over Slovak average	EUR 7 million	50%	EUR 3,5 million
at least 50% over Slovak average	EUR 3,5 million	40%	EUR 1,75 million
For SME, the above figures shall be decreased to 50% except the percentage of new technology equipment.			

For Bratislava state aid is not allowed any more, as it does not meet the EU criteria of an undeveloped region.

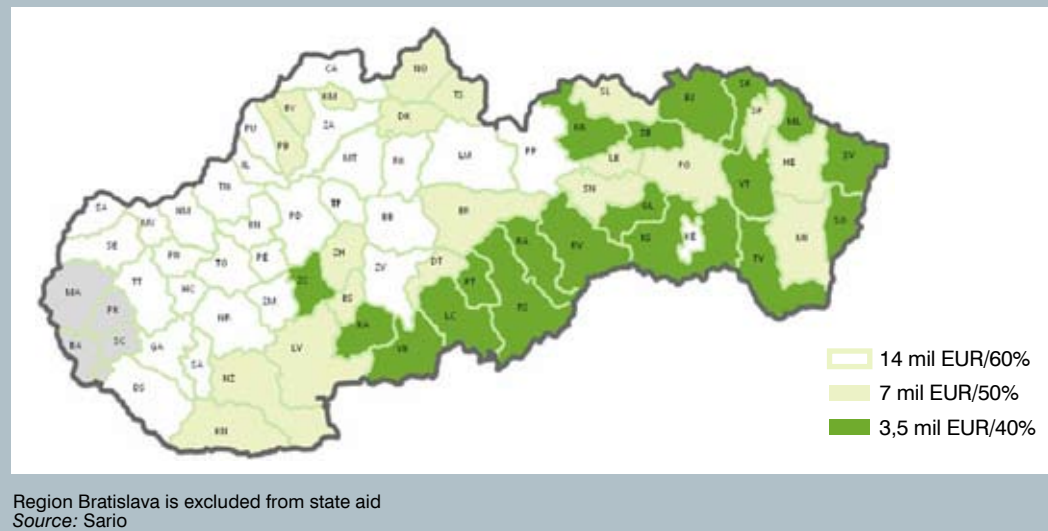
Forms of Investment Aid

Investment aid may be granted in one of 4 legally prescribed forms or their combination:

- Income tax relief (up to 80% for up to 10 years)
- Subsidy for the acquisition of non-current tangible and intangible assets
- Contribution for the creation of new jobs
- Transfer of immovable assets owned by the state, municipalities or higher territorial units for a reduced price

The Slovak government focuses on the first form mainly (the tax relief) as in such a case where there is no cash impact on the state's budget. The trend of focusing on tax incentives is expected to be continued also under a new Slovak government.

Chart 2 / Industrial production: Minimum investment amount and the proportion of new technology equipment according to districts (valid for 2011)



Conditions for the Provision of Investment Aid

As mentioned above, investment aid can be used to finance investments to specific fields set out by law. Conditions summarized below include the current validity rules.

Industrial Production

Approach to incentives in the

area of industrial production has not changed dramatically, Minimum investment amounts have been decreased as expected and are summarized in Table 1.

Minimum investment amounts above and their impact on the geographical districts are illustrated also in the Slovak investment map below (Chart 2):

More emphasis is placed on bringing in projects with high value, i.e. technology and strategic services centers.

Technology Centers

The minimum investment amount has been decreased to EUR 500 thousand (until 2011 EUR 1.33 million).

Strategic Services Centers

The minimum investment amount has been decreased to EUR 400 thousand (until 2011 EUR 1.16 million).

Tourism

The minimum investment amounts have been decreased as follows:

- EUR 10 million in districts with

unemployment rate below the Slovak average,

- EUR 5 million in districts with unemployment rate above the Slovak average,
- EUR 3 million in districts with unemployment rate at least 50% above the Slovak average.

Approval process

Last but not least, the investor should bear in mind the time needed for the whole process. It takes a much shorter time to get a written approval for projects whose parameters fulfill legal requirements (about 2 months) from when the application is filed. At this point the investment may also be launched. Table 3 summarizes all levels of approvals together with deadlines set for the state.

In practice about 6-8 months should still be allowed for the investment to be approved by all necessary levels of state administration.

Table 3 / Levels of approvals

Steps	Deadline
1. Investor submits his investment project to the Ministry of Economy (ME)	
2. Sario prepares an expert opinion on the investment project and forwards it to the ME	< 30 days
3. ME issues a written confirmation for the investor that the conditions for granting the state aid set by law have been met	< 10 days (works on a project can start)
4. ME issues a preliminary state aid offer	< 20 days
5. Particular state aid providers (Ministry of Finance and Ministry of Labour) take a stand on the investment project	< 30 days
6. ME issues an official state aid offer for the investor	< 30 days
7. Investor answers the received offer with a formal state aid application	< 60 days
8. Approval of regional aid by the Slovak government	
9. Approval by the European Commission (if required)	



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