

Regional development as the key to unlock regional potential

by  **Viera Sláviková**,
PwC, Manager -
Investment & State
Aid



Regional policies support regional development and target regions and cities to minimize regional disparities by boosting economic growth and improving the quality of life via strategic investments and projects. They are also an active form of solidarity, which supports the less developed regions.

There are numerous drivers to regional development including, inter alia, research and innovation, knowledge and self-development and natural and cultural heritage. To unlock the potential of any region, a variety of supporting measures, schemes and instruments exist. And sometimes it is quite a challenge to know your way around all of them.

In Slovakia, the government provides incentives to establish a new or expand an existing facility, expand a production portfolio, or significantly change the production process via a scheme of regional investment aid. The main aim is to promote the inflow of investments into less developed Slovak regions and increase the competitiveness of the economy.

The year 2018 saw a change to the legislative framework. The new Regional Investment Aid responded to a transformation of the business environment in Slovakia. Key priorities include support of investments with high added value, research and development, increase of innovation and automation in line with Industry 4.0 technological trends and smart specialization strategy – RIS3.

Supported areas continue to include industrial production, technology centers and shared service centers. The new legislation permits a combination of investment aid for industrial production and a technology center. Forms of investment incentives remain the same - tax allowance (tax holiday), subsidy for acquired non-current tangible and intangible assets, subsidy for newly created jobs and transfer

or lease of real estate at a price lower than the market value.

The maximum intensity of investment aid in Slovak regions remains 25%, or 35% of the total amount of the project's eligible costs depending on the main location of the investment plan implementation. A supplementary implementation location has also been introduced, which means that an investment aid beneficiary active in industrial production may place a certain proportion of new machines, instruments, and equipment acquired under the aid in the contractor's business premises.

**”
To unlock the potential of any region, a variety of supporting measures, schemes and instruments exist. And sometimes it is quite a challenge to know your way around all of them.**

The new legislation has introduced several changes related to employment requirements. For industrial production, the condition of creating new jobs has been omitted. For technology centers

and shared service centers, the condition of employing people with completed university education has been replaced by the condition of paying a higher wage than the average wage in the district of the main location of the investment. As far as eligible costs are concerned, a combination of investment and wage costs is now permitted. Costs incurred for the lease of land and buildings may also be considered as eligible.

Compared to large enterprises, the new Regional Investment Aid Act makes the investments of SMEs more favorable in terms of conditions for the provision of investment aid, maintaining the investment, and retaining new jobs created. For example, the period for maintaining new jobs created is three years for SMEs, and five years for large enterprises.

Boosting R&D and putting innovations at companies into practice is another challenge which has been responded to by a specific tax measure - R&D super-deduction. A taxpayer performing R&D activities may take advantage of the super-deduction tax incentive for qualified expenses incurred during an R&D project. For the 2018 tax period, taxpayers may deduct from their net income adjusted for prior year taxable loss carry forwards, an additional 100% of qualified R&D expenses. This special tax regime was introduced into Slovak tax law in 2015 and a continuously increasing number of companies are investing in research and innovation and benefiting from the measure.

Effective from 1 January 2018, a separate tax regime, the

patent box, was introduced. This measure provides a tax exemption on income for using protected patents, utility models, or software resulting from the taxpayer's own development activities up to 50% of such income. Income from the sale of products for the production of which a protected patent or a utility model created by the taxpayer in Slovakia has been used may also be exempted.

Another form of support for regional development initiatives are EU Funds, as Slovakia can benefit from a EUR 13.9 bil. allocation in the programming period 2014 – 2020. Considering the relatively low spending of 17 % achieved by the end of November 2018, there are many possibilities for private and public entities to submit project proposals within currently opened calls, or calls to be launched in the coming months.

Individual calls define the supported areas, beneficiaries, activities and basic requirements for the allocation of funds as well as the intensity of support from public funds. A variety of projects tackling among others research and innovation, employment, education, transport and infrastructure, the low carbon economy and healthcare can be financed. Projects can focus on new solutions in product and process innovation and promoting cooperation between the business sector and scientific and research institutions by the creation of partnerships when applying R&D outputs to manufacturing processes, and increasing energy efficiency through the application of innovative measures and technologies to reduce the carbon footprint and lower energy costs.

Regional development is an opportunity to develop our regions and bring innovation and sustainability to every element of our lives and businesses, while benefiting from existing supporting measures from public funds.