

Guide to Doing Business in Slovakia

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Table of contents

CONDUCTING BUSINESS	3
LIMITED LIABILITY COMPANIES	3
SETTING UP A LIMITED LIABILITY COMPANY	4
JOINT STOCK COMPANIES	5
PARTNERSHIPS	6
BRANCH OFFICE	6
DISTRIBUTIONS.....	6
COURT STRUCTURE.....	7
OVERVIEW	7
BRINGING A CLAIM	7
COURT COMPOSITION	7
COURT FEES	8
APPEAL AND REVIEW.....	8
ENFORCEMENT OF COURT JUDGMENTS.....	8
ENFORCEMENT OF FOREIGN JUDGMENTS.....	8
MEDIATION.....	8
ARBITRATION	9
REAL ESTATE.....	10
TAXATION	10
ASSIGNMENT AND TRANSFER OF OWNERSHIP TITLE.....	10
LEASEHOLD TITLES	10
RESTITUTION.....	11
REGISTRATION	11
EASEMENTS	12
ENCUMBRANCES	12
CHARGES	12
CONSTRUCTION PLANNING PROCESS.....	13
FINANCE AND BANKING	15
EMPLOYMENT	17
WRITTEN TERMS AND CONDITIONS	17
DIRECTORS AND OFFICERS.....	18
FIXED TERM CONTRACTS	18
WORKING TIME.....	18
PAY.....	18
EMPLOYER OBLIGATIONS.....	19
TERMINATION	19
COLLECTIVE BARGAINING AND REPRESENTATION.....	20
NON-EMPLOYMENT WORK AGREEMENTS	20
TAXATION	21

CORPORATE INCOME TAX	21
TRANSFER PRICING	21
THIN CAPITALISATION	21
DIVIDENDS	22
TAX LOSSES	22
PERSONAL INCOME TAX	22
VALUE ADDED TAX	22
MUNICIPALITY TAXES	22
INVESTMENT INCENTIVES	22

Conducting business

The Slovak constitution gives everyone the right to choose their occupation and training and to engage in commercial activities with a profit motive. Business activities are regulated by the Commercial Code. The Code applies to individuals engaged in a commercial enterprise (with a trading licence or some other authorisation) as well as to companies and partnerships.

Limited companies and partnerships are established by a written contract or deed of foundation and come into existence on the date of their incorporation into the Commercial Registry (or other prescribed registry). The Commercial Registry, including the Collection of Deeds containing company documents, is open to the public for inspection and copying (on payment of a fee).

The most common types of legally incorporated business are limited liability companies and joint stock companies. Other types include:

- General commercial partnerships
- Limited partnerships
- Limited liability company
- Co-operatives
- Branch offices of a foreign company
- European companies

Limited liability companies

A limited liability company exists independently of its members. It may have between one and 50 members, each of whose liability is limited to the amount specified in the Commercial Registry. An individual may be the sole member of up to three companies. Single-member companies may not be the sole member of another company.

The minimum registered capital is EUR 5,000. This must be paid up in full before incorporation where the company is to have a sole member.

Each member holds a single business share but each share can have different rights, such as voting and distribution rights. In most cases, the size of the business share is proportionate to the member's contribution to the registered capital.

The company must specify a reserve fund (of at least 10% of its registered capital) in its memorandum of association which must either be funded on incorporation or built up by transferring at least 5% of reported net profits (subject to a maximum of 10% of its registered capital) every financial year until the specified reserve is reached.

The company's major decisions are taken by its members in general meeting, including the appointment of individuals to act as an executive board. It is not necessary to have a supervisory board.

Advantages

- Fewer regulations than a joint stock company
- Less registered capital and reserve fund than for a joint stock company
- One sole owner being either an individual or a legal entity

Disadvantages

- Ownership interests not publicly tradable, can't be listed on the Stock Exchange
- Ownership interests less easy to transfer than joint stock company shares
- Sole founders must pay up capital in full before incorporation

Setting up a limited liability company

Investment

- no lower or upper limit
- no special permission or registration
- guaranteed repatriation of all profits
- minimum EUR 5,000 registered capital

Contents of foundation deed

- business name
- headquarters
- definition and details of members
- business activity
- registered capital
- executive board (and supervisory board, if established)
- designated custodian of the contributions
- the amount of reserve fund created on foundation
- anticipated setting-up expenses
- benefits provided to the persons participating on the foundation of the company

Other formalities

- obtain trading certificate from the trades licensing office
- registration in commercial register at registry court
- obtain a registered number (ICO)
- register with the tax authorities within 30 days of registration
- register for VAT

Joint stock companies

A joint stock company has registered capital divided into shares with a specified nominal value. It can have any number of shareholders each of whose liability is limited to the nominal value of their shareholding. The list of shareholders is kept by the Central Securities Depository.

Joint stock companies can be public or private. Public joint-stock companies are those whose shares are traded on the Stock Exchange or have been issued (in whole or part) on a public offering.

Joint stock companies can have a sole corporate shareholder but otherwise must have two or more shareholders. The company must execute a memorandum of association (or founding deed, where there is a sole shareholder), which includes the company's articles of association.

The registered capital must be at least EUR 25,000. It must be fully issued and at least 30% paid on incorporation. It must be fully paid up within a year of incorporation or within the period specified in the articles of association.

Shares may be issued in either registered or bearer form. Registered shares may be issued in documentary form with a share certificate, or book-entered form, whereas bearer shares can only be issued in book-entered form.

The company's major decisions are taken by its shareholders in general meeting. A supervisory board must be established with at least three members, to supervise the exercise of powers by the board of directors and the execution of business by the company. Responsibility for ensuring proper accounting and reporting procedures, and for general management of the company's activities is undertaken by the board of directors, which has power to take decisions on all corporate matters except those reserved (by law or in the articles of association) for shareholders in general meeting or the supervisory board.

In its articles, the company must specify a reserve fund (of at least 20% of its registered capital) which may only be used to cover its losses. The articles also specify the amount to be contributed each financial year (at least 10% of net reported profits) until the reserve fund total is reached.

Advantages

- Shares can be publicly traded on the Stock Exchange
- Usually easier to transfer ownership of shares (depending on the type of shares)
- Exists independently of its shareholders who are not liable for its debts and obligations

Disadvantages

- More heavily regulated
- Needs both memorandum and articles of association
- Larger reserve fund needed
- Must have a board of directors
- Must have a supervisory board with some employee-elected members

Partnerships

General commercial partnerships are treated as separate legal entities from their partners but are transparent for tax purposes (i.e. partners are taxed individually on their share of any partnership profits)

Limited partnerships are partially transparent for tax purposes. They can be established by at least one general partner (a *komplementar* who is fully liable for the partnership debts) and at least one limited partner (a *komanditista* who has no general liability beyond his capital contribution). General partner profit shares are taxed as part of their (individual or corporate) income whereas the limited partner profit shares are taxed collectively at partnership level.

Branch office

The branch office of a foreign company does not have a separate legal identity from its parent company but has its own management, accounting and tax requirements. It must be registered in (and submit branch accounts to) the Commercial Registry although liability remains with the parent.

Distributions

The Commercial Code imposes restrictions on the distribution of profits to shareholders. Profit distributions are subject to approval by the members in general meeting. Interim dividends are not allowed. Funds which cannot be used for distribution include the registered capital, other capital funds and any profits designated for the company's reserve fund. Distributions (and liquidation surplus) are only payable out of taxed profits and are not subject to any further (withholding or other) tax payable either by the company or the recipient.

Court structure

Overview

Slovakia has 54 district courts, eight regional courts and a Supreme Court. The district courts have separate boards for civil and criminal cases. The regional courts and the Supreme Court have separate boards for civil, criminal, commercial and administrative cases. The Supreme Court is the highest court except on constitutional issues. The 13-member Constitutional Court is an entirely independent judicial body upholding constitutional rights.

There is also a Special Court, dealing with criminal cases of corruption, and a separate military court system, with appeals also heard by the Supreme Court.

Bringing a claim

As a general rule, civil cases are begun in the district court and appeals are heard by the regional court. Certain cases, such as those involving administrative law or disputes over social security regulations, are begun in the regional court with appeals heard by the Supreme Court. Some cases involving administrative law may be begun in the Supreme Court but this is uncommon. Claims must usually be brought in the district court for the district:

- where the defendant resides or has its head office
- where any disputed real estate is located
- at the claimant's option, where the event giving rise to the claim took place. For example, a claim about trading on a stock exchange could be brought in the district court where the exchange has its head office.
- as stipulated by law (not usual in commercial cases).

Cases are usually decided by a trial attended by all parties. However, an expedited procedure can be used in monetary claims such as payment warrants, which can be decided in the absence of both parties on the basis of the claimant's petition and any accompanying documentary evidence.

Bankruptcy proceedings may be brought against individual or corporate debtors who are unable to satisfy their debts to numerous creditors within 30 days. The proceedings are brought in one of 8 district courts (one for each region of Slovakia) and allow the court to take control of the debtor's property situation with a view to satisfying his creditors in full or in part.

Court composition

Cases begun in the district and regional courts are heard by a single judge. A few, rare, cases are decided by a senate (usually three judges). The Supreme Court of Slovakia acts and decides always through senates (usually three but occasionally five judges).

Criminal cases in the district courts are decided by a judge, usually sitting with other lay judges.

Court fees

In commercial cases, the claimant (petitioner) must pay a court fee equal to 6% of the value of the claim, with a minimum fee of SKK 2,000 and a maximum fee of SKK 1,000,000.

Appeal and review

Decisions of the first instance court may be appealed (except for certain procedural decisions). Appeals must be filed within 15 days from the date of the delivery of the first instance decision.

Appeal decisions cannot be appealed and take effect from the date of delivery to the participants. In extraordinary circumstances, they may be reviewed by reopening, extraordinary appeal or special extraordinary appeal. The most common form of review is an extraordinary appeal, which is heard by the Supreme Court and must be filed within one month after the original appeal decision. The law specifies when it may be used: most commonly, where there have been procedural errors (for example, in the court's composition, or where the proceedings were initiated without a requisite petition or where the dispute has already been decided in another case).

Enforcement of court judgments

Court judgments are enforced either by execution of the court or by distraint by a court distrainer. The court distrainer will execute money judgments by deducting them from salary, sale of personal property and real estate or an order to settle a receivable. Enforcement of non-pecuniary judgments can be by orders to vacate real estate, give up an asset, divide something jointly owned or perform a required task (e.g. paint a picture).

Enforcement of foreign judgments

The recognition and enforcement of foreign judgments is governed by statute. In general, the courts in Slovakia recognise all judgments, albeit with restrictions in some cases. Judgments of courts in other EU countries are recognised and enforced in accordance with EU law.

Mediation

Where parties wish to use mediation to settle a civil, commercial, employment or family dispute out of court, the Ministry of Justice maintains a register of independent mediators who have completed professional training. Mediation centres have also been set up to provide fair conditions for settling disputes. Settlements achieved by mediation

are binding and can be enforced provided they have been documented and either notarised or approved by a court.

Arbitration

Where parties have agreed to use arbitration to resolve a local or cross-border dispute in Slovakia, their agreement will usually specify an arbitral court, such as the Slovak Chamber of Commerce and Industries. Slovakia is a signatory to the New York convention, so Slovakian courts will both recognise and enforce arbitral awards made in any of the other signatory countries, except in specified circumstances.

Real estate

In general terms, property ownership in Slovakia gives someone an unrestricted legal right to hold, use and dispose of land or buildings as he sees fit. The law acknowledges and protects this right provided it does not violate human health, nature, cultural monuments or the environment. An owner can voluntarily accept limits on his rights or, exceptionally, they can be imposed on him (for example, where he has agreed to sell or has given up residence in Slovakia).

In principle, there are no restrictions on foreigners acquiring land in Slovakia, with certain exceptions in relation to agricultural and forest land.

The construction of buildings on land requires a valid planning and building permit from the building office of the local municipal authority. Under the Slovakian Civil Code, a building is not treated as part of the land. In other words, the ownership and other rights over a building may be held separately from the ownership and rights over the land on which it is erected.

When constructing a building on someone else's land, there is usually an agreement or future purchase agreement to sell the land or building to the other party based on its present or future value. It is also possible for the land owner to grant the building owner a lease over the land for a fixed or indefinite period, sometimes with an obligation to purchase the land at the end of the lease. Alternatively, the land owner may be granted a lease of the building - very often, with an obligation to purchase the building at the end of the lease.

Taxation

Individual and corporate income tax is payable on any rental income and on the [proceeds of/gain from] sale of real estate. There is also a local tax on real estate collected by the local municipal authority.

Assignment and transfer of ownership title

Ownership title can be assigned by agreement or transferred by operation of law (e.g. by inheritance, by order of a state authority or by statutory provision). The new owner's title must then be registered at the Real Estate Registry. This takes effect, in the case of assignment, from the date permission is granted by the Cadastral Administration and, in the case of transfers, when a record is entered in the Real Estate Registry.

Leasehold titles

The Civil Code regulates leases over land or buildings. There are special rules for leases over particular types of property, including:

- a flat or part of a flat (including sub-leases)
- residential spaces in facilities earmarked for permanent housing
- non-residential premises (including sub-leases)

Under the Civil Code, flats are not treated as separate property from the building they occupy but there are rules regulating the relationship between flats and providing for joint access to common parts, common facilities and, usually, the land on which the building is erected.

Flats can be the subject of what are known as protected leases, which give increased protection to the lessee (e.g. limiting the lessor's right to terminate the lease, requiring the lessor to provide a replacement flat in specified circumstances).

Leases (and sub-leases) of non-residential premises are invalid unless they are in writing and state the subject and purpose of lease, the amount and due date of rent, the method of payment and, if for a fixed term, the term of the lease.

It is also possible to enter into financial leasing (hire purchase) agreements with leasing companies under which a lessee assumes certain risks and responsibilities (e.g. for maintenance and repairs) relating to the land or building during the lease period and, at the end of the lease, will [automatically] acquire ownership title. This can also be done as a reverse lease, where property is sold to the leasing company, leased back again under a financial lease and then reacquired at the end of the lease period.

Operational leases allow the lessee short-term or medium-term use of a property without having any investment risk or responsibility for property damage or for dealing with common ownership issues. These risks and responsibilities are borne by the lessor. Operational leases do not tie the lessee to the property in the long term and therefore allow the flexibility of regular change – perhaps to follow fashion trends or the latest in technology.

Restitution

When acquiring agricultural or forest land, it is necessary to check with the land offices whether a restitution claim has been filed (this must have been done by the end of 2004). Restitution claims can still be made by churches and parishes in respect of agricultural and forest land, farm buildings and interests in common land. These claims must be filed by the end of April 2006.

Registration

Most rights to real estate must be registered in the Real Estate Register, including:

- ownership title
- easements or other rights over land or buildings
- mortgages or other encumbrances

- options to acquire land or buildings
- leases over land or buildings for a term of at least 5 years
- rights arising from the administration of state or municipal property.

Proceedings at the Real Estate Registry (known as cadastral proceedings) are much quicker than they used to be: applications to register rights in the Real Estate Register can now be fast-tracked within 15 days for a special fee of SKK 8,000. Ordinary applications for registration are supposed to take 30 days but usually take longer (fee SKK 2,000). There are three kinds of record in the Real Estate Register:

- An entry - made to create, or remove a right (e.g. ownership title or an easement)
- A record – made not to establish rights but to register information, such as the facts giving rise to the creation, change or extinction of a right or interest
- A note – made to record a certain fact about a right or interest over real estate.

Easements

The owner of a building erected on land owned by someone else will only be able to access and use the building if he is granted an easement (a restricted right to use the land) by the land owner – usually in return for payment. The easement also needs to be registered at the Real Estate Registry.

Encumbrances

Encumbrances are third party rights over land or buildings which are registrable in the Real Estate Registry and transfer with the ownership title. They can be acquired in various ways, including by law, court order, contract, inheritance or by prescription (unchallenged use or possession over time).

Charges

A charge is a right over property given to a creditor as security for performance of an obligation or repayment of a debt. Charges are regulated by the Civil Code and enforceable through the courts. However, special rules apply to charges securing borrowings from mortgage lending businesses, which are enforceable by a judicial executor, not by a court.

Charges are not enforceable until registered in the Notarial Register of Pledges (if over personal property) or the Real Estate Registry (if over real estate).

Construction planning process

Before constructing a building, first a planning permit (also known as a zoning permit) and then a construction permit must be obtained. Once construction is finished, a use permit is required before the building can be put into use.

Planning permits are issued by the local Building Office and are valid for two years after they come into force (although they do remain valid after two years where an application for a construction permit has been submitted). The applicant does not need to own the land but must have some right over it, such as a long lease.

Planning permits set out the permitted scope of the proposed building project, including conditions for its construction, the location where the building should be constructed and any requirements for project documentation. Conditions can also be attached, to protect the public interest and, in particular, the planning and zoning objectives of the municipality or state. These include a time schedule, measures protecting environmental, architectural and planning interests and any issues raised during the planning process (e.g. by a third party accepted as a participant by the Building Office).

The entire process has to be begun again if there are any changes to the project documentation or to the purpose of the intended construction. These are known as change proceedings. However, minor changes can be dealt with in the construction permit process as long as they comply with the conditions imposed in the original planning permit.

Extensive consultation is required during the process of obtaining both planning and construction permits. Consents may also need to be obtained. The precise requirements depend on the type and location of the building. The bodies most commonly involved in consultation and consent are:

- State Agency for Administration of Water
- Agency for the protection of the environment and countryside protection
- Agency for Air Protection
- Agency for Waste Management
- Agency for Monumental Protection
- Agency for Fire Protection
- Agency for the State Administration of Forestry Management
- Agency for the Protection of Food Management
- State Labour Inspectorate
- State Administration Agency for Civil Aviation
- Ministry of the Defence
- Railway track administrators
- State Administration Agency for Terrestrial Communications
- State Agency for Electronic Communications
- Civil Protection Agency

- Health and Safety Agency
- State Veterinary Agency
- State Agency for the Protection of Minerals
- Ministry of the Environment
- Telecommunication Companies (Telekom, T-mobile, Orange)
- Energy distributors, such as SPP, SSE, ZSE
- Utilities

Construction permits are issued by the Building Office to allow construction work to be undertaken. They must be applied for within the two-year window of the planning permit. The construction permit will lapse where the builder does not begin construction within two years after it comes into force. Once issued, it is possible to amend them without having to repeat the process. Buildings erected without a construction permit are known as black buildings, and are unlawful. Construction permits set out:

- the conditions for the construction and use of the building
- general technical requirements
- relevant legislative and technical standards
- conditions imposed by relevant authorities
- issues raised during the planning proceedings (e.g. by third parties)
- conditions for the protection of the public interest, health and environment
- the time period for the building to be completed
- any other issues affecting the project

Use permits are issued once construction is finished, to confirm that the Building Office is satisfied that the building process has been carried out correctly and that the building is suitable for its designated use. Buildings cannot be put into use without a valid use permit. The use permit is also the basis for acquiring the building number and registration at the cadastral registry.

Finance and banking

Slovakia's banking laws were changed from 2002 onwards to bring them into line with EU and OECD requirements. Under the single passport principle, EEA-based banks and credit institutions that are licensed to carry on banking activities in their home country may also do so in Slovakia. Banks and credit institutions from outside the EEA can only do so if granted a licence by the National Bank of Slovakia.

Any EEA-based bank or credit institution intending to set up a branch office or provide cross-border banking services in Slovakia must formally notify the National Bank of Slovakia. The NBS will then ask the banking supervisory authority in the bank's home country for:

- confirmation that it has no concerns about the bank's organisation or finances
- confirmation that it is willing to supervise the bank's activities in Slovakia
- details of the regulatory regime to which the bank is subject in its home country (which must be made publicly available in Slovakia via the internet).

The NBS will similarly notify both the bank and its home supervisory authority of the monetary policy rules applying to banking generally in Slovakia. These rules may not be restrictive or discriminatory.

Once these formalities are complete (or no response has been received from the supervisory authority after two months), the bank can begin conducting any banking activities in Slovakia for which it is licensed in its home country, apart from mortgage transactions and acting as a depository (which need a separate licence from the NBS). It can conduct these activities with or without a branch office (e.g. via the internet). In common with other banks, it can also use advertising to promote its services in Slovakia.

The NBS retains a limited supervisory role as regards the activities of Slovakian branch offices of foreign banks:

- it has shared responsibility with the home country supervisory authority for supervising the liquidity of the foreign bank's branch
- it can take measures against the branch of the foreign bank for any breach of Slovakian law, according to the seriousness of the offence. The measures tend to be remedial rather than punitive.

There is considerable similarity between cross-border banking activities and those which may be provided via a branch office; the distinction is subject to differing interpretations by the various supervisory bodies across the EEA. In Slovakia, branch offices of EEA-based banks are exempt from certain administrative requirements, such as registering their representative office and gaining NBS approval before selling a branch office.

Information acquired in the course of supervision can be shared between the NBS and banking supervisory authorities in other EEA countries. The NBS is the state body responsible for supervising the insurance and capital markets sectors in Slovakia. From January 1, 2006, NBS also took over responsibility for supervising the insurance industry and financial markets.

The single passport principle also applies to EEA-based insurance companies, trustee companies and securities traders, allowing them to carry on in Slovakia (with or without a branch office) any activities they are licensed to carry on in their home country. The NBS maintains a list of all foreign institutions carrying on insurance or capital markets activities in Slovakia which is published on its website.

Employment

Slovakia's Labour Code has undergone fundamental change since 2002, mainly to bring it into line with EU employment law. The Labour Code regulates relations between EEA-based employers and employees (including non-residents) who carry out work in Slovakia, unless the Act on international civil law states otherwise.

The Labour Code contains general principles guaranteeing employment rights such as:

- Freedom of contract; right to wages and fair working conditions
- Right to protection against direct or indirect discrimination and to equal treatment for men and women
- Right to form works councils to receive information about the employer's economic and financial situation
- Right to collective bargaining and protection against unemployment
- Right to health & safety protection
- Right to social security protection during incapacity, pregnancy etc
- Right to enforce employment rights through the courts
- Right to protection and vocational training for youth workers

Before employment, employers must inform prospective employees of their rights and duties, working conditions and pay. The employer may only ask prospective employees for information relevant to the job they are seeking.

Written statement of terms and conditions

All essential terms and conditions of employment have to be given to the employee in writing, or the employer can be penalised. Where these are not contained in a written employment contract, the employer must give the employee a written statement containing information such as:

- the parties' names
- a description of the work to be performed
- the place of work
- pay details
- commencement date

Other agreed terms and conditions, such as payment dates, working hours, holiday entitlement, notice period and contractual benefits must be given to the employee in writing within a month after the employment began (unless they are set out in a collective agreement). Where this is not done, the terms and conditions set out in the Labour Code will apply instead. Changes to employment terms and conditions must also be agreed in writing.

Directors and officers

The Labour Code does not apply to the rights and duties of directors or other board members but it does apply to any employment contract they have with the company.

Fixed term contracts

Employment for a definite period can be agreed for a maximum of three years. Within this time, such employment can be extended or can be renewed for the same period of time. However, this can only be done once. Fixed term contracts must be in writing and specify the term or final date. Where an employee continues to work for his employer after the fixed term has expired, the Labour Code provides that his employment contract changes to indefinite time period contract unless the parties agreed otherwise.

Fixed-term employment for longer than 3 years is only possible in certain situations set out in the Labour Code (e.g. when replacing another employee, working on a project restricted by result, where permitted by collective agreement or where the employer has fewer than 21 employees).

Employment will end on the expiry of the fixed term but the parties can agree to end it earlier (e.g. on notice, during a probationary period).

Working time

Employee working hours must not exceed 8 hours in any 24-hour period or 40 hours in a week. Employees can work up to 38.75 hours a week in a two-shift system and 37.5 hours a week in a three-shift system. Overtime hours must not exceed 8 hours a week averaged over four consecutive months (which can be extended by agreement to a 12-month average). Overtime cannot exceed 150 hours in any calendar year (save in exceptional circumstances and with the employee's agreement, when the annual limit is increased to 250 hours). There is no aggregate limit for employees working for more than one employer. Overtime can either be required or optional (e.g. to deal with a high workload or an urgent requirement in the public interest).

Employees are entitled to a 30-minute rest and refreshment break every six hours of work. They must also have a minimum rest period of 12 hours between shifts (although this can be reduced e.g. for non-stop operations, rotation work, extraordinary occurrences) and two consecutive days' rest (usually Saturday and Sunday, unless other rest days are required by the nature and conditions of work).

Pay

Employees are entitled to a minimum wage (currently SKK 8,100 a month or SKK 46.60 an hour) with extra pay for working overtime, at nights or on public holidays. The minimum uplift is 25% of their average pay rate for overtime work (for hazardous work

35%) and 50% for work on public holidays. There must be a minimum uplift of 20% of the minimum hourly wage for night work.

Employer obligations

Employers have a duty:

- to protect the health and safety of employees while at work
- to improve their working conditions and environment
- to maintain the workplace, rest rooms and toilet facilities in good working order and appearance
- to provide warm meals either in the workplace or in other catering facilities (and contribute at least 55% of the cost) – or pay a monetary subsidy where there are no catering facilities to provide meals

Termination

There are several ways of terminating employment:

- by mutual consent
- by giving notice
- by immediate termination
- during a probationary period
- on the expiry of a fixed term

Notice has to be in writing, validly given to the other party and of at least 2 month's duration (3 months' where the employment has lasted for 5 years or more). Longer notice periods can be agreed between the parties. The employee does not have to have a reason for giving notice, whereas the employer may only give notice in cases of:

- Closure or relocation of its business (in whole or part)
- Redundancy
- Incapacity (for health or other reasons)
- Poor performance (in limited circumstances)
- Repeated misconduct or breaches of discipline (in limited circumstances)

There are certain occasions when an employee may not be given notice, including periods of incapacity, pregnancy, military service and time off performing public duties.

Immediate termination is permitted by the employer where the employee has committed serious misconduct at work or has been convicted of an intentional offence. Termination must be carried out within a year of the employee's act and with two months after the employer became aware of the act.

Immediate termination is permitted by the employee if his life and health are at immediate risk, if the employer is 15 or more days late in paying remuneration or

compensation owed to him, or he cannot carry on working without his health being at risk and the employer has not transferred the employee to a suitable job. Notice of immediate termination must be given in advance, in writing and state the grounds.

Termination in writing by either party is also permitted during the probationary period. No reason need be given.

If an employee is dismissed for organisational or health reasons - either on notice or where he consents to end his employment before the beginning of his notice period – he is entitled to compensation equivalent to two months' pay at his average rate (3 months' pay if he has worked for 5 years or more with the same employer).

Collective bargaining and representation

Since 2002, works councils have been introduced in organisations with more than 50 employees and works trustees in organisations with between 5 and 49 employees. European Works Councils must also be set up by employers with more than 1,000 employees in total, including at least 150 employees in two or more EU member states.

Establishing a works council or works trustee is optional. They may operate jointly with trade unions, which have exclusive rights of collective bargaining and must be allowed to operate freely by employers.

In certain situations, works council have the right to negotiate, supervise and take decisions on behalf of the workforce. Principally, however, their role is to receive information from the employer about its economic and financial standing and future plans for development. The employer may impose confidentiality restrictions on the information or decline to give them information which may be damaging. Where a works council or works trustee is established, the employer must discuss every immediate termination or on notice dismissal with them, otherwise the termination or on notice dismissal will be invalid.

Non-employment work agreements

Occasionally, employers may hire people to do minor or sporadic tasks (e.g. casual or temporary work for students) especially for result-defined work, or occasional activities defined by the type of work. These contracts are not permitted for creative or scientific activities, or activities protected by copyright laws.

Taxation

Slovakia's tax system is similar to those of other EU member states. Its key features are:

- 19% flat rate income tax for individuals with proportionate allowance for deductible items from earned salary between SKK 48000 – 96.000. No allowance for salaries exceeding latter income.
- 19% flat rate corporate income tax payable on profits, including capital gains
- Liberalised use of tax losses within 5 years
- 19% VAT (excluding particular medical material and equipment, medication and reagents to which a 10% VAT rate applies)
- No tax on dividend distributions or liquidation surplus
- No thin capitalisation restrictions
- Municipality taxes (primarily real estate tax and vehicle tax)
- Excise duties

Slovakia operates a system of self-assessment, with tight filing deadlines. The tax authorities may perform detailed audits. Significant interest and penalty costs can be payable for under-declaration or late payments of tax.

Corporate income tax

Companies resident in Slovakia are subject to corporate income tax on their worldwide pre-tax profits. Non-resident companies are taxed on pre-tax profits earned in Slovakia. The business year is normally the calendar year but companies may adopt their parent company's business year. Only expenses incurred to generate, preserve and maintain the taxable income of a company are tax deductible. There is a detailed list containing examples of the types of expenses which are tax deductible and those which are not.

Transfer pricing

Transfer pricing generally follows OECD guidelines in requiring an arm's length price to be set for foreign related-party transactions (such as loans) and specifying methods for setting transfer prices. The taxable base can be adjusted by the Slovak tax authorities where the parties fail to apply arm's length prices.

Thin capitalisation

The thin capitalisation rule has been introduced again. From 1 January 2008 these changes have been applied to foreign related parties which are financed by inter-company loans. It applies 6:1 debt/equity ratio for the loans exceeding SKK 100,000,000 in a current tax period.

Dividends

Recipients of dividend distributions or liquidation surplus from Slovak-based companies are not liable to any withholding or other tax as the amounts have already been subject to corporate income tax. However, foreign recipients may be liable to tax in their country of residence.

Tax losses

Tax losses can be carried forward for a maximum of five consecutive tax periods following the tax period in which it was incurred. It is up to the taxpayer to decide when and how much of the loss to offset against his tax base in any tax period.

Personal income tax

Slovak tax residents are subject to personal income tax at 19% on their worldwide income. They may, however, be exempt from taxation on foreign source income under double-tax conventions. Non-residents are only liable to tax on their Slovak income, such as from employment performed in Slovakia.

Value added tax

The VAT system follows the EU model. Businesses must register for VAT when their turnover in a 12-month period reaches SKK 1.5 million (c. €35,000). Voluntary VAT registration is possible below this threshold. The VAT rate is 19%, except for some goods, to which a 10% rate applies. Goods imported from non-EU countries are subject to VAT on the aggregate of their customs value and any customs duties, fees and consumption tax.

Certain transactions are exempt from VAT, such as postal services, financial services, apartment rentals and sales, rentals and leasing of land (except building land). Businesses providing exempt services cannot recover input VAT in full. Services and goods provided free of charge are also subject to VAT where input VAT is deductible in full or in part. VAT can be refunded under special procedures for foreign corporations and individuals.

Municipality taxes

The system underwent fundamental change in 2005. Taxes on real estate include land tax, building tax and flat tax. Rates are set per square metre by the municipal authority responsible for the area where the real estate is located.

Investment incentives

From 1 January 2008 the new Act on investment incentives came into force. Tax subjects who qualify for approved investment help in the nature of tax relief can apply

for the right of exemption (in the form of a tax credit) if all the compliance conditions are satisfied. They can apply for this right in a maximum of five tax periods. There is no legal right to the tax credit, and the number of qualifying investments is limited depending on the particular region and amount of available relief under state aid legislation. In addition, the scope of the incentive is subject to approval by the European Commission.