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Overview of new exemptions in taxation of individuals in 2018 and 2019

Several new exemptions or tax bonuses have been introduced in taxation of individuals for the years 2018 and 2019. As in many cases these changes were passed indirectly through amendments to other regulations, we prepared for you a summary of the most important ones.



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For the year 2018, the following changes are to be kept in mind:

- *Tax bonus with respect to mortgage interests:* Subject to several conditions set out in Article 33a of the Income Tax Act, an individual can claim tax bonus with respect to mortgage interests in the amount of 50% from paid interests, max. EUR 400 per year.
- *Spa care allowance:* According to Article 11 Section 14 of the Income Tax Act, spa care allowance can be claimed with respect to paid spa care expenses of a taxpayer, his/her spouse and children up to EUR 50 per each of them.
- *13th/14th salary:* Following the introduction of the 13th and 14th salary in the Labor Code, exemption of such salary up to the amount of EUR 500 has been introduced in Article 5 Section 7 of the Income Tax Act. Provided that 13th salary was paid already in June 2018 (at least in the amount of average monthly earnings of the employee) and on 31 October the employee has been employed for at least 48 months by this employer, on 14th salary paid in December 2018 (at least in the amount of average monthly earnings of the employee), exemption from taxation up to EUR 500 can be claimed for the first time in December 2018 under the transitional provisions to this amendment. However, the exemption with respect to 13th salary paid in June may be claimed in June 2019 for the first time.
- *Accommodation of employees working in multiple shifts operations:* On 4 December 2018, an amendment to the Act on the use of electronic cash registers was approved. Through this amendment, another exemption from taxation has been introduced in Article 5 Section 7 of the Income Tax Act. Non-monetary benefits in the form of accommodation provided to an employee by an employer whose predominant activity is production carried out in multiple shifts operation will be exempted up to EUR 60 per month. This can be applied already in 2018 annual settlement or 2018 tax return. The exemption is subject to certain conditions, mainly accommodation provided in employer's buildings classified under codes 112 and 113 of the Building Classification.

For the year 2019, some more changes will be added:

- *Exemption claimed on 13th salary mentioned above.*
- *Change in tax bonus with respect to dependent children:* On 4 December 2018, an amendment to the Income Tax Act was adopted. The amendment is changing child's tax bonus effective from 1 April 2019. As of this date, tax bonus with respect to children up to six years of age will be doubled.
- *Recreational vouchers:* An amendment to the Act on travel and tourist industry promotion introduces also an exemption from taxation of recreational contributions, if provided to employees in accordance with the Labor Code. We describe this

topic in more details in another [article](#).

Amendment to the Act on travel and tourist industry promotion was passed again by the Slovak Parliament

Slovak Parliament overrode President's veto on the amendment to the Act on travel and tourist industry promotion that touches on recreation of employees and introduces recreational vouchers as the new financial tool for promotion of travel and tourist industry.



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Soon after Slovak president vetoed the amendment and suggested the entire provisions on recreational vouchers to be left out in his letter of 8 November 2018, the Slovak Parliament approved the amendment in its original wording on 27 November 2018.

The amendment to the Act on travel and tourist industry promotion which was repeatedly approved by the Slovak Parliament indirectly amends several acts, inter alia Labour code, where the conditions for provision of recreational contribution are set.

The basic attributes of the recreational contribution are as follows:

- obligation to provide recreational contribution applies on employers having more than 49 employees (the average registered number of employees for the previous calendar year should be taken into account), while only employees with employment continuously lasting at least 24 months are entitled for recreational contribution,
- employer having less than 50 employees is allowed (not obliged) to provide recreational contribution to employees
- recreational contribution is provided by the employer at the request of the employee,
- recreational contribution is provided in the amount of 55% of total eligible costs; up to 275 EUR per employee working full-time and one year (when there is a part-time job the contribution is reduced proportionally),
- the recreational contribution can be provided in the form of recreational voucher or without the recreational voucher – i.e. reimbursement of eligible costs of the employee upon proving the contribution entitlement and upon submission of documents (the recreational voucher is new financial tool in the travel and tourists industry – „a specific mean of payment or similar technical mean storing ownership value electronically which is issued by the limited provider in line with the specific regulation”),
- the fee for the mediation of services through recreational voucher should not exceed 3% of the nominal value of the recreational voucher.

The amendment to the Slovak Income Tax Act is part of the travel and tourist industry promotion package; and brings certain changes as follows:

- recreational contribution is exempted from tax at hands of employees (Article 5 Section 7 Letter b) of the Income Tax

Act),

- should an employee claim recreational contribution and at the same time the way of his/her recreation give rise for his/her entitlement to non-taxable item on spa care, his/her entitlement to non-taxable item should be disregarded (Article 11 Section. 14 of the Income Tax Act),
- costs on recreational contribution which were incurred in compliance with specific legislation are considered as tax deductible expenses for the employer (Article 19 Section 2 Letter. c) Point 5 of the Income Tax Act),

The amended provisions of the Income Tax Act will apply to the recreations started after 31 December 2018 (§ 52zt of the Income Tax Act).

Parliament approved the Act on special levy of supermarket chains after President's veto

Yesterday (December 13, 2018), the Slovak Parliament overrode President's veto on the Act on special levy of supermarket chains which introduces the obligation to pay a special levy in the amount of 2,5% of the net turnover of the supermarket chain.



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According to the approved wording the levy base should be the net turnover as defined by the Slovak Act on Accounting, i.e. revenues from sale of products, goods and services less the discounts. The levy rate was set at 2,5% and the levy should be calculated as the levy base multiplied by the levy rate.

The supermarket chain should be obliged to deliver the written notice on the amount of the levy to the Levy Administrator in the prescribed form by the end of the calendar month following the levy period and within that period the levy should be also payable.

According to the draft of the Act if the amount of the levy does not exceed EUR 5,000 the supermarket chain is not obliged to pay the levy.

The levy period for which the supermarket chain should be obliged to pay the levy should be the three consecutive calendar months of the relevant accounting period. The draft of the Act states also the first and the last levy period of the supermarket chain for the relevant accounting period.

The approved draft of the Act further provides the definition of the supermarket chain as the group of business establishments that use the same or mutually interchangeable business name and which are operated by the same entrepreneur or by related entrepreneurs, with the following conditions:

- The supermarket chain is a provider in the food industry;
- The supermarket chain operates in at least 15% of all districts;
- At least 25% of net turnover comes from the sale of food;
- There is unified design, shared communication and joint marketing activities of the operations.

On the contrary, the definition of the supermarket chain excludes inter alia small and medium-sized entrepreneurs, the chains that are food producers or are related to the food producer, with 80% of the net turnover deriving from the sale of produced foods and the supermarket chains with at least 80% of turnover deriving from the sale of food of one class.

The special levy of supermarket chains will be considered as tax deductible expense upon its actual payment.

Moreover, the approved wording also regulates the way of payment of the levy, competence of the levy administrator and the liability for breach of obligations under the law.

Under the common, transitional and final provisions the supermarket chain should be required to pay the levy as of the first levy period falling into the accounting period starting after 31 December 2018.

The entry into force of this Act is expected on 1 January 2019. We will keep you informed about the next steps.

New EU legislative acts in the field of VAT were published before the end of this year

Several changes in the field of VAT were introduced at EU level, inter alia measures intended to improve the current VAT system – so called “quick fixes”, the possibility to apply reduced VAT rates to electronic publications, reaching agreement on the proposed possibility of application of a generalised reverse-charge mechanism, as well as prolongation of the optional domestic VAT reverse-charge mechanism.



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Quick fixes

On 7 December 2018, an amendment to the EU VAT Directive together with amendments of the related Council Regulations were published in the Official journal of the EU, introducing short-term measures intended to harmonise and simplify certain VAT rules, until the definitive VAT system is implemented. These “quick fixes” cover the following areas:

- **call-off stock:** simplification and harmonisation of treatment for call-off stock arrangements, where at the time of the transfer of goods to another EU member state, the supplier already knows the identity of the person acquiring the goods, to whom these goods will be supplied at a later stage and after they have arrived in the EU member state of destination,
- **the VAT identification number:** the identification number of the customer will become a mandatory condition to benefit from a VAT exemption for the intra-EU supply of goods,
- **chain transactions:** uniform criteria established to enhance legal certainty in determining the VAT treatment of chain transactions and
- **proof of intra-EU supply:** simplification and harmonisation for the documentary evidence required to claim a VAT exemption for intra-EU supplies.

These new arrangements are due to apply in the EU member states from 1 January 2020.

Possibility to apply reduced VAT rates to electronic publications

On 14 November 2018, an amendment to the EU VAT Directive was published in the Official journal of the EU, which allows EU member states to apply reduced VAT rates also to electronic publications if they wish to do so. Super-reduced and zero rates are only allowed for EU member states that currently apply them to publications on physical means of support.

The new rules should apply only temporarily, pending the introduction of a new, definitive VAT system. Proposals for the new system should allow member states more flexibility than at present in setting VAT rates.

Optional domestic reverse charge mechanism and Quick Reaction Mechanism were prolonged

On 12 November 2018, a directive amending the EU VAT directive was published in the Official journal of the EU, the purpose of which is to prolong the possibility of EU member states to:

- apply the reverse charge mechanism to combat existing fraud in supplies of goods and services included in Article

199a(1) of the EU VAT Directive,

- use the Quick Reaction Mechanism (QRM) to combat VAT fraud more quickly and efficiently.

Measures included in Articles 199a and 199b of the EU VAT Directive were prolonged until 30 June 2022, the date on which the definitive regime for intra-EU B2B supplies of goods should enter into force.

Temporary generalised VAT reverse-charge mechanism

On 2 October 2018, the Economic and Financial Affairs Council (ECOFIN) reached a general approach on the proposed possibility of application of a generalised reverse charge mechanism.

The proposed directive should allow EU member states that are most severely affected by VAT fraud to apply temporarily a generalised reverse-charge mechanism (shifting liability to pay VAT from the supplier to the customer). EU member states will be able to use the generalised reverse charge mechanism only until 30 June 2022 (until the definitive VAT system is in place), and under very strict technical conditions.

The European Parliament gave green light to the proposal on 11 December 2018. The directive is expected to be adopted without further discussion.

President signed the Amendment to the VAT Act

Approved wording of the Amendment to the VAT Act contains two significant changes.



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On 11 December 2018 the Slovak President signed the amendment to the Slovak VAT Act. Two main changes compared to the original draft amendment, details of which are included in our November's issue (<https://www.danovky.sk/en/draft-amendment-to-the-slovak-vat-act>), are as follows:

- The implementation of the EU legislation with respect to vouchers was postponed to 1 October 2019;
- As of 1 January 2020, new VAT exemption for taxable supplies related to the international trade will be introduced.

We will keep you informed on the next steps within the legislative process.

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