

Doing Business in Slovakia

2008



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1. Introduction

UHY is an international organization providing accountancy, business management and consultancy services through financial business centres in over 70 countries throughout the world. Business partners work together throughout the network to conduct trans-national operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering a business operation in Slovakia has been provided by the office of UHY's representative there:

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Auditor SK s.r.o. has been established since 1999 and specialises in: audit; accounting; payrolls; tax consultancy; tax returns; negotiations with tax authorities; advising on all areas of international tax law; controlling and financial management advising; assistance with company foundations, reorganisations, mergers, demergers, and liquidations; expert reviews; corporate valuations, and more

Clients include construction, engineering, international transport, insurance, property, lawyers, franchising, manufacturing corporations.

Information in the following pages has been updated so that it is effective at the date shown, but inevitably it is both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at August 2008.

We look forward to helping you do business in Slovakia.

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2. Business environment

The Slovak Republic (or Slovakia) is one of the youngest countries in Central Europe, established after the peaceful partition of the former Czechoslovakia in January 1993.

Slovakia has mastered much of the difficult transition from a centrally planned economy. The government made excellent progress during 2001-04 in macroeconomic stabilization and structural reform. Major privatizations are nearly complete, the banking sector is almost completely in foreign hands, and the government has helped facilitate a foreign investment boom with business friendly policies such as labor market liberalization and a 19% flat tax. Foreign investment in the automotive sector has been strong. Slovakia's economic growth exceeded expectations in 2001-06 despite the general European slowdown. Unemployment, at an unacceptable 18% in 2003-04, dropped to 10.2% in 2006 but remains the economy's Achilles heel. Slovakia joined the EU on 1 May 2004.

Political system

Slovakia is a parliamentary democracy with a President as the constitutional head of state and one house of Parliament. It has a written constitution with provisions protecting fundamental human and property rights and rights to education and religion. The President is elected for five years. Both the President and the Parliament are elected by universal suffrage. The government is appointed by the President and is subsequently approved by the Parliament.

Market conditions

Slovakia offers a relatively new market. The industry and trade sectors make up a substantial part of business in Slovakia. Education, construction and agriculture also play a significant role.

With political trust regained, and offering a wide range of government tax incentives in addition to its skilled and low-cost workforce, Slovakia is well equipped to compete with other Central and Eastern European locations in attracting foreign direct investment.

Population

The population of Slovakia was 5,431 million in 2005 with 51.46% women and 48.54% men. The people live mostly in the cities of Bratislava (the capital), Banská Bystrica, Košice, Nitra, Prešov, Trnava, Trenčín and Žilina.

Different ethnic groups are:

- Slovaks: 86%
- Hungarians: 10%
- Czechs: 1.0%
- Romanians: 1.7%
- Ukrainians, ethnic Germans, Poles and Ruthenians: reminder

Transport & logistics

Map of the roads, motorways and airports

Airports: Bratislava, Prešov, Sliac, Poprad, Kosice



Map of the main routes of the railway system and ports

Roads

Currently, Slovakia has 297km of motorway and further development is under way. The Bratislava region in particular is well connected to the motorway infrastructures of neighboring Hungary, Austria and the Czech Republic. Slovakia's highway network forms part of major trans-European corridors, including Corridor No. IV (Berlin-Prague-Bratislava-Budapest-Istanbul); Corridor No. Va (Bratislava-Zilina-Kosice-Ukraine); and Corridor No. VI (Gdansk-Katovice-Zilina). Construction projects will expand Slovakia's motorway network to 658km.

The total road network is about 17,500km - a figure effectively unchanged since 1996. In addition to the motorways mentioned above, Slovakia has 3,200km of first class and 3,000km of second class roads. The remainder is classified as third class.

Rail

ZSR has 3,665km of railways, of which 2,484km are single-track, 1,023km double-track, 52km narrow-gauge, and 106km broad-gauge.

Air

Six airports serve the country. While Bratislava airport is the principal international gateway, Vienna is only 50km away and provides a wider network of destinations.

Water

The Danube and a channel between the Rhone and the Danube connect Slovakia to the Black Sea and the western European system of waterways. There are two principal river ports, at Bratislava and Komarno. The former has two key terminals for containers (capacity 12,000 20ft equivalent units [TEUs] per annum) and liquids. By contrast, Komarno handles mainly agricultural produce.

Location

Slovakia is landlocked. Its geographical position predetermines its role as a crucial transit country linking different parts of a united Europe. The bordering countries are Poland (north), Ukraine (east), Hungary (south), Austria (south-west) and the Czech Republic (north-west).

Bratislava, Vienna and the Hungarian city Gyoer are often called the 'golden triangle' because of its favorable geographical position and potential for mutual co-operation.

Area

The area of Slovakia is 49,035 sq km (approximately 18,900 sq miles) and is referred to as the heart of Europe.

Language

The official language is Slovak. Used are Hungarian, Ruthenian, Romany, and Ukrainian languages.

Currency

The basic monetary unit is the Slovak crown (SKK). The National Bank of Slovakia (NBS) is responsible for monetary policy. The exchange rate at 31st August 2007 was:

| | | | |
|----------------|-------|-----|--------|
| Switzerland | CHF 1 | SKK | 20,562 |
| Czech Republic | CZK 1 | SKK | 1,222 |
| UK | GBP 1 | SKK | 49,795 |

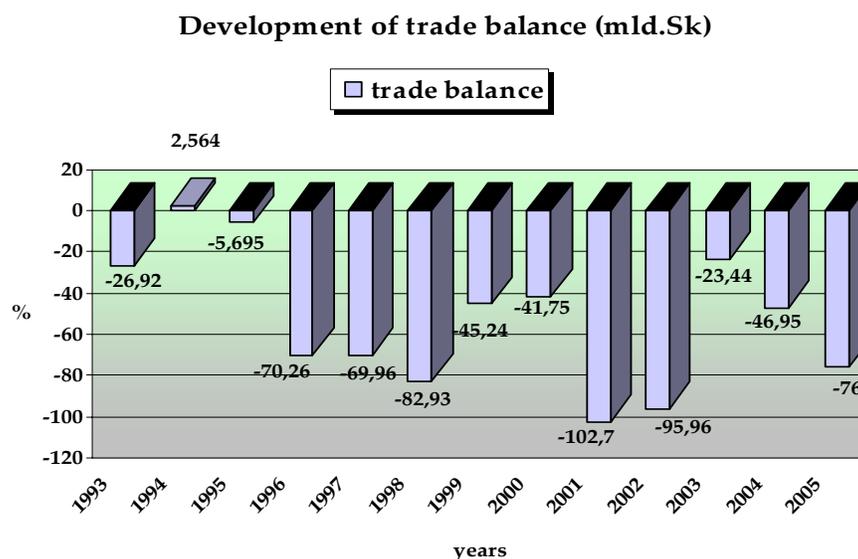
| | | | |
|-----|--------|-----|--------|
| USA | USD 1 | SKK | 24,778 |
| EMU | EURO 1 | SKK | 33,743 |

Imports and exports

The trade balance of Slovakia is developing positively but it has remained passive since 1993. Exports increased in 2005 to 25.7 billion Euros (2004: 22.4 billion Euros). The main traditional export industries are chemical, pharmaceutical and rubber followed by metallurgy, power engineering and woodworking. Engineering has recovered through investment from Volkswagen.

Imports in 2005 amounted to 27.7 billion Euros (2004: 23.7 billion Euros). The main import items are raw materials such as mineral oil, natural gas and iron ore.

The trade balance development can be seen in the following table:



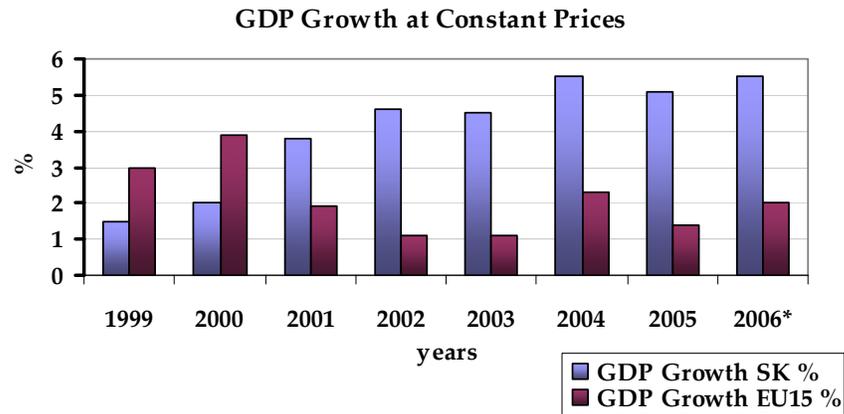
Source: Statistic office of Slovak republic, NBS

The economy

In Q1, 2004 Slovakia surrendered the position of fastest-growing economy in Central Europe as its regional peers apparently began to feel the benefits of recovery in the Euro zone. GDP experienced 4.2% growth in 2003. In 2005 the growth recorded at the rate of 5.5%. It is important to note that GDP Growth development in recent years was substantially affected by strong foreign demand. Currently also domestic demand and investments

play a significant role. Therefore the growth in Slovakia can be considered to be sustainable.

The GDP Growth can be seen in the following table:



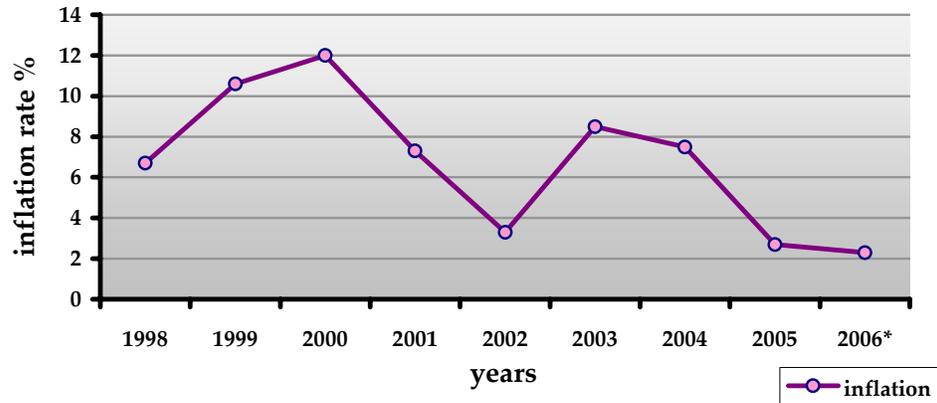
| Year | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006* |
|-----------------------------------|------|------|------|------|------|------|------|-------|
| GDP Growth in Slovakia (%) | 1.5 | 2.0 | 3.8 | 4.6 | 4.5 | 5.5 | 5.5 | 5.5 |
| GDP Growth in EU 15 (%) | 3.0 | 3.9 | 1.9 | 1.1 | 1.1 | 2.3 | 1.4 | 2.0 |

Source: Eurostat, National Bank of Slovakia, * forecast

The core inflation remains low (2.3% in June 2004) which promises positive development in the future. It can be already recognized in the year 2005 – inflation rate recorded was 2.7%.

The development of inflation can be seen below:

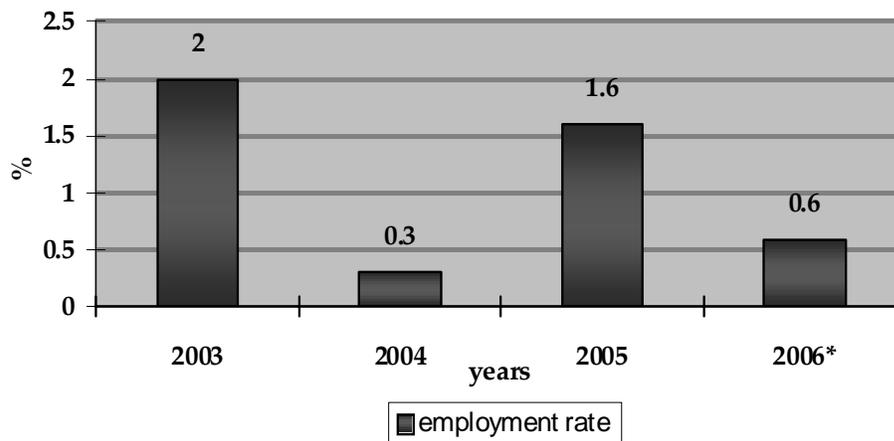
Inflation Development



Source: Bureau of Statistics of Slovak Republic, * forecast by National Bank of Slovakia

The employment rate of Slovakia is developing positively. The chart below shows employment growth (%) in 2003, 2004, 2005 and prediction for 2006 as Ministry of Finance SR stated.

Employment Growth

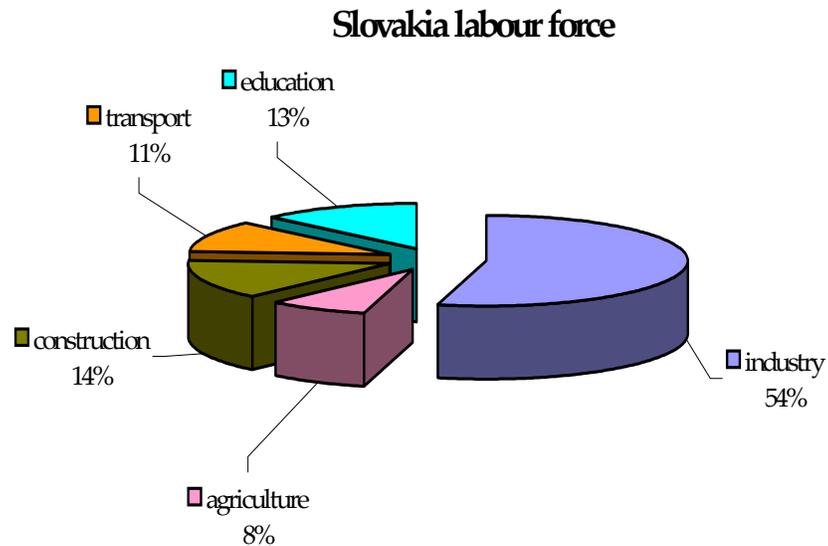


| Year | 2003 | 2004 | 2005 | 2006* |
|---------------------|------|------|------|-------|
| Employment Growth % | 2.0 | 0.3 | 1.6 | 0.6 |

Source: Ministry of Finance of Slovak republic, * forecast

Of the labor force, around 34% is employed in industry, 5% in agriculture, 9% in construction, 7% in transport and communication and 8% in education. Slovakia has a well qualified workforce with 13% of the population achieving university education. In 2005 the workforce in employment totaled 2,254 million people.

The table below shows the labor force according to occupation:

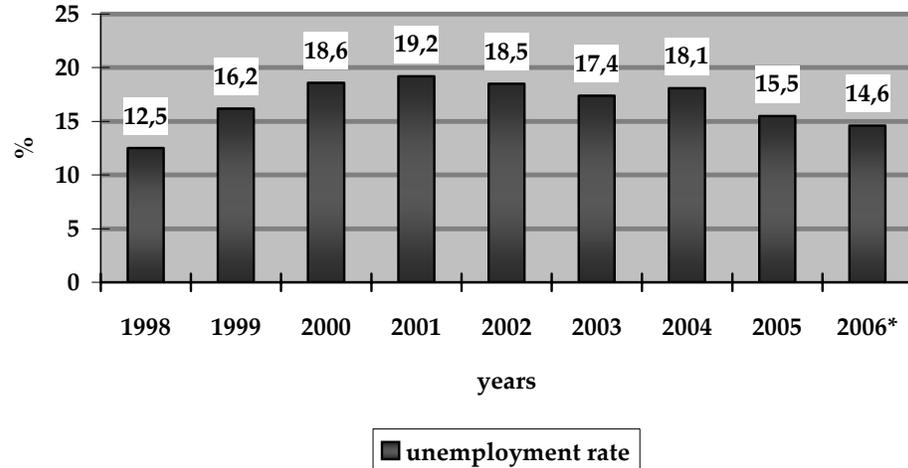


Unemployment

Unemployment rate declined from 19.2% recorded in 2001 to 17.4% in 2003. The unemployment rate development was affected mainly by strong economic growth. This rate is lowest in the west (Bratislava) and becomes higher the farther one goes to the east.

Predictions of Slovak National Bank expect the unemployment rate to continue in declining trend.

Unemployment Rate development



| Year | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006* |
|---------------------|------|------|------|------|------|------|------|------|-------|
| Unemployment Rate % | 12.5 | 16.2 | 18.6 | 19.2 | 18.5 | 17.4 | 18.1 | 15.5 | 14.6 |

Source: Bureau of Statistics of Slovak Republic, * forecast by National Bank Slovakia

Stock exchange

Bratislava Stock Exchange (BSSE) is the main market operator. Securities are traded (currently only shares, bonds and unit certificates are traded). The BSSE operates two markets - the listed securities market and the free market.

Trading rules and requirements for the issuers of securities differ between markets (e.g. on the listed securities market specific notification duties have to be fulfilled). Stock exchange trading can be made only through a securities broker who is a BSSE member. For further information see: www.bsse.sk

Unfair competition

The Commercial Code also governs competition rules in general. Unfair competition is prohibited. It is primarily understood as:

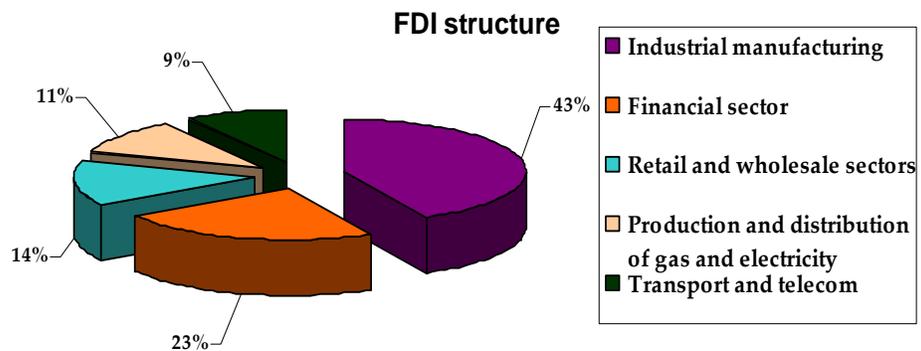
- Deceptive advertising;

- Deceptive descriptions of goods and services;
- Conduct contributing to mistaken identity;
- Parasitic exploitation of a competitor's reputation, products or services;
- Bribery;
- Disparagement;
- Violation of trade secrets; or
- Endangering consumers' health or the environment.

3. Foreign investment

Through end of third quarter of 2005, approximately 39.8 percent of FDI went to industrial manufacturing, 21.9 percent to the financial sector, 13.1 percent retail and wholesale sectors, 10.0 percent to production and distribution of gas and electricity and 8.7 percent to transport and telecom. According to the Slovak official statistics, the Netherlands was the leading foreign investor in the country with 21.9 percent of FDI, followed by Germany with 19.2 percent and Austria with 15 percent. The U.S. came ninth with 4.1 percent. However, the GOS credits numerous U.S. investments to other countries depending on whether the investments came through the investors' foreign subsidiaries. For example, U.S. Steel investment comes in part from its subsidiary in the Netherlands, and therefore the GOS considers it to be a Dutch investment. A survey conducted by the U.S. Embassy shows U.S. investment in Slovakia at over USD 3.0 billion in current and future commitments, making the U.S. approximately the third leading foreign investor in Slovakia. The region of Bratislava has absorbed 67.5 percent of the total FDI through 2005, followed by the city of Kosice with 8.8 percent.

The structure of FDI of 2005 can be seen below:



The biggest investors in Slovakia for 2005 include the U.S.A., South Korea, Germany, the Czech Republic, Switzerland, Austria, Netherlands and Italy. The largest U.S. investor in Slovakia is U.S. Steel. The foreign commercial service reports that there are currently 110 U.S. companies present in Slovakia. Other large foreign investors in Slovakia include Volkswagen, Hyundai Kia, Peugeot Citroen, Getrag Ford, Deutsche Telecom, Ruhrgas, Intesa BCI, UniCredito, Raiffeisen Group, Enel and Siemens.

Peugeot and KIA have also become important - they have started to build a car plant which is expected to be in production in 2006.

Foreign-owned companies

Once established in Slovakia, foreign-owned companies are regarded in the same way as their domestic counterparts. With a few exceptions, foreign companies establishing Slovakia-based subsidiaries generally encounter no special nationality requirements on directors and shareholders.

Slovakia imposes very few restrictions on foreign ownership and there are no limitations on the free flow of capital.

Another popular option for foreign companies is to buy Slovak companies. Such acquisitions can provide the foreign investor with an established name, recognized brands, customer base and local management.

Reasons for investing in Slovakia

Why invest in Slovakia?

- Lower income tax rate and the absence of tax on dividends and profit shares - the most attractive Slovak changes for investors;
- Low labor and production costs;
- Availability of a highly skilled workforce;
- Strategic location;
- Satisfaction of already established investors;
- Integration with the world economy;
- A new Act on Commercial Register - any new company has to be registered within five days; and
- Government incentives.

Financial assistance

A number of options are available if you need financial assistance to establish your company:

- Banks – may provide loans and overdraft facilities.
- Venture capital companies - invest directly into a company with a view to them receiving a long-term return on investment.
- Invoice discounting/factoring suppliers - assist with a company's cash flow.

Government incentives

The Slovak government provides attractive incentives for both foreign and domestic investors.

Direct state aid is available to create jobs and retrain employees.

Conditions for incentives

Incentives may be offered in these circumstances:

- Construction of a new plant, or expansion or modernization of an existing plant, or provision of services, or acquisition of a plant;
- Investment of more than 400 million SKK (200 million SKK in regions with unemployment rate over 10%) within three years; 200 million SKK (100 million SKK) must be covered by own equity;
- Achieving at least 80% of total sale revenues from business activities stated on the application for incentives; or
- Meeting other specific conditions.

Regulatory framework

When setting up a business in Slovakia it is important that you are familiar with:

- The tax, National Insurance and VAT systems;
- The legal system, and what laws and regulations may affect your business;
- Health and safety regulations;
- Environmental considerations;
- Licensing;
- Immigration status (e.g. of your staff); and
- Intellectual property, including patents, copyright and trademarks.

Foreign loans

The requirement to ask for the National Bank of Slovakia's approval for all types of foreign currency loans from abroad was cancelled from 1st January 2001. Although loans are not subject to approval, they need to be reported to the National Bank of Slovakia.

4. Setting up a business

The Slovak Commercial Code provides various options for structuring business entities. The most popular choice for foreign investors is to set up an enterprise, or branch office of a foreign company.

However, other options may suit individual circumstances so an overview of all the forms of business is listed below. The taxation treatment is explained in section 6, and accounting requirements in section 7.

All business entities must be registered in the Slovak Commercial Register. The legal forms available are:

- Enterprise or branch office of a foreign company (podnik alebo organizačná zložka podniku zahraničnej osoby);
- Joint-stock company (akciová spoločnosť, a.s.);
- Limited Liability Company (spoločnosť s ručením obmedzeným, s.r.o.);
- Limited partnership (komanditná spoločnosť, k.s.);
- General partnership (verejná obchodná spoločnosť, v.o.s.); and
- Co-operative (družstvo).

Except for enterprises and branch offices, all of these forms constitute Slovak legal entities.

There is no limit to the percentage interest a foreign investor may have in a Slovak legal entity, nor are there any legal requirements for local participation. Foreigners may establish both joint ventures and wholly owned subsidiaries in Slovakia.

Enterprise or branch office of a foreign entity

Range of activities

While Slovak law does not limit the activities of enterprises or branch offices of foreign entities, it does require that these offices fully list their planned activities in their application for entry in the Commercial Register. Only then may they engage in the activities registered in the Commercial Register.

Jurisdiction

The law under which the foreign legal entity was founded also applies to the internal dealings of the enterprise and branch. This also applies if the foreign legal entity transfers its registered base from abroad to Slovakia.

Management

Entities establishing an enterprise or branch must appoint a director (manager) to head the branch and register him/her in the Commercial Register. This person can be either a Slovak national or an expatriate with a valid long-term Slovak residence permit. Expatriates who are citizens of EU and OECD member states are not required to have long-term Slovak residence permits.

Branch offices of foreign entities are treated as other legal bodies under Slovak legislation.

Joint-stock company (a.s.)

Foundation

Joint-stock companies (a.s.) may be founded by a single legal entity or by two or more individuals or legal entities (resident or non-resident).

A joint-stock company may be public or private. A public joint-stock company is a company that has issued all or part of its shares through a public offer for subscription shares, or has had its shares accepted by the Stock Exchange to be traded on the securities market.

The minimum joint-stock capital requirement is SKK 1 million. Since October 1st 2004 the value of minimum capital can be listed also in Euro. Minimum is 25,000 Euro. An official appraiser must value non-monetary contributions.

In the case of a single founder, a Founder's Deed must be drafted and signed. If two or more people found the company, they must conclude a Founding Agreement. These Founding Documents must be made in the form of a Notaries Deed and must be accompanied by the company's by-laws (Articles of Association).

The company may be entered in the Commercial Register only once the founding General Meeting of shareholders has been held (if applicable), the company by-laws have been approved, and members of the company's statutory bodies have been elected. The company's share capital must be subscribed and at least 30% of monetary contributions must be paid up.

Liability

A joint-stock company is liable with its entire property for any breach of its obligations. The shareholders are not liable for the obligations of the company.

Members of the Board of Directors who have breached their duties shall be jointly and severally liable to compensate damage caused to the company.

The right of the company to receive compensation for damage caused by the Members of the Board can be claimed directly by the creditors of the company if their receivables cannot be settled from the company's assets.

Registered capital

Stock may consist of either bearer shares or shares registered in a name. Shares can be issued either in book-entry form or in paper form. Registered shares can be issued in both forms, unlike bearer shares which can be issued only in book-entry form. Both are transferable.

The option to issue employee shares as a specific type of shares is not allowed. When increasing the registered capital of the company, employees are enabled to acquire company shares for a lower price.

Preference shares may be issued for up to a maximum of 50% of the registered capital. Non-voting preference shares may be also issued. Interest-bearing shares (whose yield is not related to the performance) are not permitted.

Company bodies

The General Meeting of shareholders is the supreme body. The General Meeting is empowered, for example, to amend the Articles of Association, approve changes to the registered capital, issue debentures, elect and recall members of the Board of Directors (if not otherwise provided for) and the Supervisory Board, approve financial statements and profit distribution, and dissolve the company. If the company has only one shareholder, this person enjoys the rights and obligations of the General Meeting of shareholders.

The Board of Directors is the statutory body of the company. Members are elected for a maximum of five years. Members of the Board of Directors are elected by the General Meeting of shareholders or, if so stipulated by the company's Articles of Association, by the Supervisory Board. The Board of Directors act in the company's name according to guidelines approved by the General Meeting of shareholders, and is responsible for ensuring proper accounting and reporting procedures. The Board of Directors submits the year-end accounts and proposals for profit distribution or loss recovery to the General Meeting of Shareholders for approval.

Joint-stock companies are also required to have a Supervisory Board of at least three members elected for a maximum of five years. If the company has more than 50 employees, at least one-third (but no more than half) of the members are elected and de-selected by the employees. Members of the Board of Directors or any other person entitled to act in the company's name may not become Supervisory Board members. The Supervisory Board monitors the activities of the Board of Directors and the performance of the company.

Reserve fund

A reserve fund of at least 10% of its registered capital must be established at the company's incorporation. Thereafter, the fund must be increased annually by a sum stipulated in the company's Articles of Association. This sum, however, may not be lower than 10% of net profit. The reserve fund shall be supplemented until it reaches the level stipulated in the company's Articles of Association but must be at least 20% of the registered capital.

The reserve fund, of the legally required minimum, may be used only to cover company losses.

Dissolution

A joint-stock company may be dissolved, either with or without liquidation, e.g.:

- When the period for which it was established has expired;
- By a court decision;
- By a resolution of the General Meeting of shareholders; or
- When bankruptcy proceedings are cancelled under certain conditions

Extraordinary financial statements are required to support an extraordinary tax return.

Special features

- Minimum capital of SKK 1 million;
- Non-monetary contributions fully subscribed and at least 30% of monetary contributions paid up;
- Audit required;
- Supervisory Board must be established;
- Reserve fund is required on incorporation.

Limited Liability Company (s.r.o.)

Foundation

An s.r.o. is the Slovak equivalent of a German GmbH- or a limited liability company. It may be founded by one or more (up to 50) individuals or legal entities (known as 'partners'). A company with a sole partner cannot be the sole partner of another company. An individual cannot be the sole partner in more than three companies. The founding partners are obliged to draw up a Memorandum of Association describing the company's activities, partners and their shares, company representatives (executives) and details of the company's reserve fund.

The registered capital must be at least SKK 200,000 (EUR 5000), with each partner making a minimum contribution of SKK 30,000 (EUR 750). An official appraiser must value non-monetary contributions. At least 30% of each partner's monetary contribution and all non-monetary contributions must be paid up before the s.r.o. is entered in the Commercial Register, with the total value of these contributions amounting to at least SKK 100,000. If the s.r.o. is founded by a single entity, the registered capital must be paid up in full. An application for entry in the Commercial Register must be made within 90 days of the foundation or within 90 days of the delivery of the trade license.

Liability

Partners' liability does not extend beyond their unpaid contributions to the company's registered capital.

Reserve fund

The size and the method of establishing and supplementing the reserve fund must be laid out in a Memorandum of Association. However, if not established on the company's incorporation, the reserve fund must be established in the company's first profitable year at a level of at least 5% of net profit but not more than 10% of the registered capital. Thereafter, the fund must be supplemented annually by a sum stipulated in the Memorandum of Association; this sum, however, may not be lower than 5% of net profit. The reserve fund must be supplemented until it reaches the level stipulated in the Memorandum of Association, which must be at least 10% of the registered capital.

The reserve fund may be used, to the minimum extent required by law, only to cover the company's losses.

Supervisory Board

A Supervisory Board may be established, but is not required, for an s.r.o.

Dissolution

The company may be dissolved, e.g.:

- When bankruptcy proceedings are cancelled under certain conditions.
- By resolution of the General Meeting.
- When the period for which it was established has expired.
- By a court decision.
- Due to other reasons stipulated in the Founder's Deed (Agreement).

Extraordinary financial statements are required to support an extraordinary tax return.

Pledge over an ownership interest

An ownership interest (representing the share of the partner in the company) can be pledged on the basis of a written Pledge Agreement. The pledge has to be registered in the Commercial Register.

Special features

- A minimum capital of SKK 200,000 with a minimum paid-up contribution of SKK 30,000 per participant;
- The amount of the paid-up monetary contributions together with the value of all non-monetary contributions should be at least SKK 100,000 in total before submission of the petition asking for the company to be registered in the Commercial Register;
- A company with a sole partner cannot be the sole partner of another company;
- An individual cannot be the sole partner in more than three companies;
- An annual or extraordinary audit is required only once the criteria stipulated by law (turnover, assets and the number of employees) are met (see 'Accounting & Reporting');
- Maximum of 50 partners;
- A reserve fund must be established once the company becomes profitable; and
- No Supervisory Board required.

Limited partnership (k.s.)

Foundation

Limited partnerships may be founded by two or more individuals or legal entities ('partners').

Limited partnerships must have both limited and general partners. The partners must draw up a Partnership Agreement specifying the company's activities, the partners, the shares of each limited partner, and indicating which partners bear limited or general liability.

Under the Slovak Commercial Code, individuals and legal entities may become partners with general liability in only one entity at a time. Non-monetary contributions to the partnership have to be valued by an official appraiser.

General partners are jointly and severally liable for the partnership's obligations up to the extent of their entire personal property. Only these partners are entitled to manage the partnership and act as statutory representatives.

A limited partner is liable for the partnership's obligations only to the extent of his/her unpaid contributions in the partnership (the contribution has to be at least SKK 10,000). However, should a limited partner conclude a contract on behalf of the company without being so empowered, he/she is liable for the obligations (debts) ensuing from this contract to the same extent as a general partner. Limited partners have the right to review the accounting books and receive a copy of the financial statements.

Dissolution

Limited partnerships may be dissolved, e.g.:

- When bankruptcy proceedings are cancelled under certain conditions;
- By agreement of the partners;
- When the period for which the partnership was established has expired;
- By a court decision;
- On a general partner's death, winding up or bankruptcy; or
- When notice is served by one of the general partners if the partnership has been founded for an indefinite period of time.

Special features

- No minimum capital from general partners is required;
- The limited partner's share has to be at least SKK 10,000;
- At least one partner must bear general liability for the partnership's obligations;
- Audit is required according to legal legislation;
- No corporate bodies may be established; and
- No reserve fund is required.

General partnership (v.o.s.)

Foundation

General partnerships may be founded by two or more individuals or legal entities ('partners').

Under the Slovak Commercial Code, individuals and legal entities may bear general liability in one entity only.

The partners draw up a Partnership Agreement detailing the company's activities and the partners.

Partners` rights and obligations

All partners are jointly and severally liable for all the partnership's obligations up to the extent of their entire personal property.

Each partner may be involved in the management of the partnership, although the Partnership Agreement may authorize one or more partners to act on behalf of the partnership in accordance with the decisions of the majority of the partners.

Profits or losses are distributed equally unless the Partnership Agreement specifies otherwise.

Dissolution

General partnerships may be dissolved, e.g.:

- By declaration of the bankruptcy of a partner;
- By agreement of the partners;
- When the period for which it was established has expired.
- By a court decision;
- Upon the death of a partner (unless transfer to an heir has been agreed);
- By the winding up of a partner who is a legal entity; or
- When notice is served by one of the partners if the partnership has been founded for an indefinite period of time.

Special features

- No minimum capital or audit required.
- All partners are jointly and severally liable for the partnership's obligations.

Registration requirements - for all businesses

The Commercial Register requires, among other things, the following documents and procedures:

- Trade license issued by the local Trade Authority, including the name of the person who meets the qualification requirements for engaging in that trade (if applicable);
- Foundation deed (or a similar foundation document) and company's Articles of Association, if applicable;
- An account with a Slovak bank (only if minimum capital requirements are applicable);
- Fulfillment of any minimum capital requirements (if applicable);
- Rather than a trade license, a special approval is required in such areas as banking, finance and defense; and
- Both foreigners and Slovak citizens may lead local entities, but foreigners need a temporary residence permit before they can be entered as statutory representatives in the Commercial Register. This does not apply to citizens of EU and OECD member states.

The European Company (Societies European - SE)

Council Regulation 2157/2001/EC provides the option to form a European Company SE, which has been able to operate on a Europe-wide basis since 8th October 2004 - also the deadline for EU Member States to implement the related Directive (2001/86/EC) on worker involvement in such SEs.

An SE enables companies established in more than one Member State to merge or create a joint venture or a holding company, and conduct their business activities throughout the EU on the basis of a single set of rules and a unified management and regulatory system.

The European Cooperative Society

(Societies Cooperativa Europaea - SCE)

Council Regulation (EC) No 1435/2003 constitutes the legal ground for a European Co-operative Society that allows co-operative businesses operating in more than one Member State to be established as a single entity under EU law. Co-operatives operate with one single legal identity, a single set of rules and a single structure.

Co-operatives are, in general, enterprises like any others but they are established to serve the needs of their members, rather than to provide a return on investment.

5. Labour

Employment of foreigners

The employment of foreigners is possible in Slovakia; usually they are required to obtain work permits issued by a local labor authority.

For Czech individuals there is simplified procedure.

Since May 1st 2004 EU members do not need a work permit.

Slovak legal entities or branch offices without restrictions may employ Slovak individuals.

All employees must be registered with the labor and tax authorities.

Rules for expatriates

Employment income received by non-residents, for work performed on Slovakian territory, which are employed by a foreign entity and paid from abroad, is exempt from Slovak personal income tax provided that it is not derived from independent activities (actors, sports people, etc.) or performed in a permanent establishment.

Slovak tax legislation includes the 'economic employer' structure under which, under certain circumstances, individuals legally employed by non-Slovak entities may be regarded as employees of a Slovak entity.

Wages

Employees of Slovak legal entities and foreign branch offices may be paid only in Slovak crowns for work performed in Slovakia. Foreign employees are entitled to convert the total of salaries paid in Slovak crowns to their account abroad. The minimum monthly wage is from 1st of October 2007 SKK 8,100/per month and SKK 46,60/per hour. The employer is obligated to submit to all his employees written detail information about the wage calculation and all contributions fees deducted from the gross wage for the employer.

Overtime work

Overtime means work performed by an employee at an employer's instruction, or with its consent, beyond weekly working hours specified in the employee's schedule of working hours, and performed outside the scope of the scheduled shifts of work.

The employer may order overtime work only in cases of temporary and urgent increased need of work, or in the public interest. It can even intrude

on time for 'undisturbed rest' between two shifts and/or, subject to conditions stipulated in the Labor Code, it can involve non-working days.

Overtime must not exceed an average of eight hours per week. In a calendar year, an employee can be ordered to work overtime during no more than 150 hours.

Benefits in kind

Depending on the nature of the work and the availability of people with necessary skills, employers offer additional benefits in kind to their employees. Where a company car is used for private purposes, the employee pays 1% of the acquisition price.

If the car of an employee is used for company travel trips, than reimbursement of business travel expenses in excess of statutory limits (SKK 6.20 per kilometer) plus fuel costs.

Employers are obliged to create a social fund to the value of 0.6% of salary. This money can be used only for specified purposes for employees.

Another employee benefit is the food ticket. Everyone who works more than four hours a day has the right to a food ticket from the employer.

Labour legislation (industrial relations/ trade unions)

The Labour Code, which came into effect on 1 April 2002, includes the following provisions:

- Employees can have a trial period of a maximum of three months.
- The maximum working time per week is 40 hours.
- On average, employees may not work more than eight hours' overtime per week within an agreed period, which may not be longer than 12 months. The maximum overtime that the employee can be ordered to work is 150 hours per annum. However, the employer and the employee may agree on another 250 hours.
- Minimum annual paid holiday is four weeks for people with fewer than 15 years' work experience (including, e.g. time at university) and five weeks in other cases.
- The notice period is a minimum of two months. If the employment has lasted at least five years, the employer must give a minimum of three months' notice. Conditions under which an employer may terminate the employment are expressly stipulated in the Labor Code. Employment can be terminated immediately without notice if both the employer and employee agree. Moreover, the employer can terminate the employment immediately if the employee conducts willful crime or seriously breaches his obligations.

Social security and health insurance

The amount of social insurance contribution, to be paid by employers and employees, equals a specified percentage of the gross monthly income of the employee up to a limit (i.e. a maximum computation base), which will vary according to the kind of insurance (e.g. retirement, disability, sick leave and guarantee insurance, etc.) and depend on the average monthly salary announced by the Slovak Statistical Office for the previous calendar year. The limit for social insurance is SKK 25 911,00 for the sickness insurance and the guarantee insurance, the limit SKK 51 822,00 is for the old age insurance, the disability insurance, the unemployment insurance, the reserve fund. Currently, the limit for health insurance is a fixed amount equal to SKK 47 475,000. The limit changes 1st January. Total contributions for the year 2007 are 13.4% for the employee and 35.2 % for the employer.

There is a completely new obligation for every person insured during the year as sole trader to submit the annual settlement. This obligation relates already to the year 2005 and under some conditions also for employees.

The health insurance from the compensations of company executives or members of supervisory boards or boards of directors is paid by the company. According to the amendment are there persons considered as employees and not sole traders.

Voluntary health insurance is available for Slovak citizens with permanent residence who are not obligatory health insured (e.g. working in an EU member state).

Termination of the employment contract

The employment relationship can be terminated as follows:

By agreement; if the employer and employee agree upon termination of the employment relationship, that relationship shall terminate on the agreed day. The employer and employee shall conclude such an agreement in writing. Upon the employee's request, or if the employment relationship were terminated for reasons of organizational changes, the agreement has to contain the reasons for termination.

By notice; both employer and employee may terminate the employment relationship by giving notice. The notice has to be in writing and delivered, otherwise it is invalid. The Labor Code stipulates the periods of notice. The period of notice is the same for both the employer and employee and is at least two months. Where an employee has served an employer for at least five years, the period of notice is at least three months.

By immediate rescission; the immediate rescission of the employment relationship is possible only during the period stipulated by law and only under conditions stipulated by law.

By rescission during the period of probation; during the probation period, both the employer and employee may terminate the employment relationship in writing for any reason or without giving the reasons. The written notification on termination of the employment relationship must be delivered to the other party generally at least three days before the day of the expected termination of the employment relationship.

By death of the employee.

The employment relationship agreed for a fixed time terminates by expiry of the agreed period of time.

Contracts of employment

All types of employment contracts must be in writing and the subject of work must be described.

The contract of work must include:

- The type of work for which the employee is being hired and its brief characteristics.
- The place of work (municipality and organizational part, or other specified place).
- The day the work starts.
- Salary conditions, unless agreed otherwise in the collective agreement.

Types of work contract

- Full-time agreement.
- Work performance agreement.
- Agreement on temporary job of students.
- Agreement on work activities.

Work performance agreement

The employer can agree on how the work is carried out if the expected scope of the work, for which the agreement is being concluded, does not exceed 350 hours in the calendar year. The expected scope of the work also includes work performed by the employee for the employer based on other agreements on the execution of work.

The agreement on the execution of work must be in writing, otherwise it is not valid. The work performance agreement must include the specification of the work to be done, agreed fee for its realization, time within which the work is to be done, and expected scope of the work if its scope does not

follow directly from the specification of the work to be done. The written work performance agreement is to be concluded no later than one day before the work starts.

The agreement of execution of work can be terminated:

- By completion of the work; or
- By withdrawal of the employee if unable to discharge the work tasks because the employer has not created the working conditions as agreed upon for him

Agreement on temporary job of students

Work performed on the basis of such an agreement must not exceed, on average, one half of regular weekly working time. The employer is obliged to agree students' holiday work in writing, otherwise it is invalid. The agreement shall contain:

- Agreed work;
- Agreed fee for the work done; and
- Agreed scope of the work time and period of time for which the agreement is being concluded.

An agreement on students' holiday work can be terminated:

- By completion of the work;
- By an agreement;
- By a notice; or
- By immediate cancellation of the agreement.

Agreement on work activities

Work activities may be performed for up to 10 hours per week on the basis of an agreement on work activities.

An agreement on work activities may be concluded for a definite or indefinite period.

Termination of the agreement with immediate effect may be agreed only for those circumstances in which an employment relationship may be terminated with immediate effect. If the method of termination of the agreement is not agreed in the agreement itself, termination is possible by agreement of the contracting parties as of an agreed date, and may be terminated by a single party 22 only with notice without stating a reason with a 15-day notice period starting from the date on which written notice is delivered.”.

Subcontractors and outsourcing

It is common in some industries (e.g. construction, computer programming) for businesses to use a subcontractor (either a business or a self-employed person) instead of employing someone with particular skills for a specific task. Many businesses (such as catering, facilities management, accounts) use external suppliers in return for a fixed price. In both cases, the business has a contract with another business (or self-employed person) for the supply of a service or component product, rather than having to employ people direct. This can reduce costs and administrative time, and provide higher quality skills for specific tasks.

Self-employment

It is possible to set up in business as a self-employed person. The Inland Revenue uses different methods for assessing and collecting income tax and National Insurance.

Rates

Income tax is charged at a 19% flat rate.

6. Taxation

The Slovak tax system comprises the following taxes:

- Income taxes (personal income tax, corporate income tax)
- Value Added Tax (VAT)
- Excise duties
- Real estate tax
- Motor vehicles tax
- Municipal taxes
- Stamp duties.

Inheritance and gift tax was abolished with effect from 1st January 2004.

Real estate transfer tax was abolished with effect from 1st January 2005.

Bases of taxation

Legal entities that are seated in the Slovak Republic or whose place of effective management is seated in Slovakia are generally regarded as resident and liable to pay Slovak corporate income tax.

Liability to tax arises from the residency of the company, individual or trust and through the location of assets and sources of income. Companies and individuals, resident and domiciled in Slovakia, pay tax on their worldwide income and gains, whereas non-residents and non-domiciled individuals are generally subject only to tax on Slovakia-source income. A non-domiciled individual resident of Slovakia will bear Slovak tax on remitted overseas income or gains as well as Slovak gains and income.

Foreign income of Slovak residents is fully taxable, but a credit for foreign tax paid may be given in accordance with double tax agreements.

Inheritance tax and gift tax were abolished in January 2004.

Corporate income tax

The general tax rate is 19% of the tax base.

Corporate income taxes are computed by reference to the “tax base”. The tax base is generally gross income of the entity less related expenses, modified by a number of adjusting items.

Examples of income, none subject to tax:

- Shares in profit after tax, e.g., in the form of dividends;
- Dividends paid after 1st April 2004 by a Slovak subsidiary to an EU Parent Company even if such dividends related to profits earned

before 1st January 2004, the receiving company needs to directly possess a holding of at least 25% of capital at the time of distribution;

- Income received from inheritance or donations; or
- Payments related to liquidation surpluses and settlement amounts to which the shareholders became entitled from 1st January 2004.

Exact income is exempt from taxation as financial benefits derived from grants provided according to international treaties concluded by the Slovakia, royalty payments made to EU entities, which must be under certain conditions in the beneficial owners of such income, are exempt from tax if paid on or after 1 May 2006.

As a general rule, expenses spent on attaining, ensuring and maintaining taxable income booked in the records of the taxpayer are tax deductible, unless they are specifically listed as tax non-deductible items.

Examples of tax deductible items:

- Tax depreciation costs,
- Tax residual value of depreciable assets sold,
- Obligatory social security contributions paid by an employer,
- Expenses incurred for the provision of health and social facilities for employees,
- Operational expenses of facilities used for protecting the environment,
- Taxes and fees, other than those listed as non-deductible items.

Examples of tax non-deductible items:

- Gifts;
- Penalties and fines other than contractual;
- Accounting depreciation costs, which exceed tax depreciation costs;
- Individual and corporate income tax and taxes paid on behalf of another taxpayer;
- Expenses on the generation of tax-free income; or
- Losses derived from the sale of receivables, exceptions are listed in the law.

Losses

A tax loss incurred prior to a year in which a tax profit arises can be carried forward over five consecutive years starting with the first tax profit period. In contrast to rules which applied prior to 1st January 2004 the tax loss does not have to be carried forward in equal portions nor does a portion of the carried forward loss have to be reinvested in fixed assets.

A company wound up without liquidation, is allowed to transfer the right to carry forward its tax losses to its legal successor to set off against subsequent taxable profits.

Each year's tax loss should be considered separately and can be carried forward over five consecutive tax periods.

Corporate income tax prepayments

Corporate income tax prepayments are payable quarterly, if the last known tax liability was between SKK 50,000 and SKK 500,000. If last tax liability was over SKK 500,000 than monthly prepayments required.

Personal taxes

Resident/non resident status

Individuals with a permanent residency in Slovakia and those who hold a temporary residence permit in Slovakia are considered residents of Slovakia. In addition, any individuals residing or physically present in Slovakia for at least 183 days in a calendar year are considered Slovak residents for tax purposes. Residents are subject to tax in Slovakia on their worldwide income.

Individuals who spend less than 183 days in a calendar year in Slovakia and who do not have permanent residence or temporary residence permit there are treated as non-residents, and taxed on their Slovak source income only.

Personal income tax

Employment income includes salaries, wages, bonuses, and other compensation of a similar nature and most benefits in kind. Employment income also includes fees paid to directors and shareholders of private limited companies and to partners of limited partnerships for services rendered.

Personal income tax prepayments

An individual is obliged to pay tax prepayments for income tax purposes, if the last known tax liability was higher than SKK 50,000. The threshold for monthly payments remains unchanged, i.e. if the tax liability exceeds SKK 500,000. Otherwise, quarterly payments are due.

An individual who started to receive taxable income before the end of a taxable period and an individual with unlimited tax liability, who receives taxable income from an employer based abroad, are liable to pay tax prepayments. Tax authorities will determine the amount of prepayments

due on the basis of individual request or the tax authorities' initiative. This is not applicable if the tax prepayments are already being withheld on the basis of the 'economic employment' or 'foreign taxpayer' concept.

Tax returns

Tax returns for each calendar/financial year must be filed within three months after the end of the year. Extensions may be granted on a case-by-case basis up to a maximum of three additional months. An extension may be granted for an extra six months if the taxpayer receives an income from foreign sources.

Natural persons – sole traders, who are not VAT payers, can apply lump-sum expenses in the amount of 40% (60% deduction for some listed entrepreneurial activities). The natural persons who do not apply the lump-sum expenses method can also include meal allowances (in limited amount) in the tax expenses.

Employee's income from dependant activities up to 5,000 SKK per month can under some conditions be taxed by withholding tax of 19% which can significantly cut down office work.

Since 2006 the non-monetary income of employee in form of providing a recreation facility is always exempt from tax (not only in case the facility is in the ownership of the employer.)

Obligatory registration

Amendment to the Income Tax Act valid since 01.09.2007 established new registration obligation for natural persons on the Tax Office. Every person renting house, building or apartment or any real estate (with exception from lands) must register this activity within 30 days from starting the rent.

Value added tax (VAT)

The VAT rate of 19% applies to all taxable supplies performed by the VAT-payer and since 1st of January 2007 rate of 10 % is applied for specific goods like pharmaceutical products.

VAT subjects

VAT is charged on the:

- Supply of goods and services in Slovakia.
- Import of goods from third countries by any entity.
- Acquisition of goods from other EU Member States (intra-community acquisitions).

- Acquisition of selected services ('reverse charge') from other EU Member States.

Voluntary registration

Voluntary registration as a taxpayer is an option for both foreign and local entities. Filing an application with the local tax authority suffices.

Obligatory registration

Slovak taxable entities, with their seat, place of business or establishment in the Slovak Republic, must register for VAT if their cumulative turnover within the previous maximum of twelve calendar months exceeded SKK 1,500,000.

Registration for VAT purposes is also obligatory for:

- A legal entity or individual, which acquires a business or part of a business through a contract of sale of business;
- A foreign entity performing economic activities in Slovakia that are subject to VAT;
- A foreign entity, which makes distance sales in Slovakia to persons who are not registered for Slovak VAT purposes, and the total value of the supplied goods exceeded SKK 1,500,000;
- A foreign entity, which made distance sales of goods to individuals for personal consumption, and these goods are subject to excise duties; or
- An entity that is not registered for VAT purposes, but acquires goods from another EU-member state at a value exceeding SKK 420,000 in a calendar year. Voluntary registration is also possible; a request for VAT registration should be filed with the tax authorities.

It is not possible for group companies to register as a single VAT entity.

Persons are regarded as taxable from the date of their registration.

Obligatory de-registration

De-registration for VAT can be applied for as a result of the following situations:

- A taxpayer who has ceased to perform economic activities that are subject to VAT;
- A taxpayer whose taxable turnover did not reach SKK 1,500,000 in the last twelve calendar months;
- A foreign entity making distance sales if the total value of the supplied goods did not reach SKK 1,500,000 in the relevant calendar year and also did not reach SKK 1,500,000 in the previous calendar year;
- An entity, registered for acquisition of goods from another EU-member state, which did not acquire goods from another EU-member

state at a total value of SKK 420,000 in the relevant calendar year and also did not reach that threshold in the previous calendar year.

Excess Deduction

Excess input VAT should be carried forward and offset against future VAT liabilities. If a taxpayer cannot offset a VAT credit in the VAT period following that in which it arose, the tax authorities should refund the amount to the taxpayer within 30 days of filing a tax return for a tax period following the tax period, in which the entitlement to excess deduction arises.

VAT compliance

The VAT-payer is obliged to file a VAT return, and pay the tax due, within 25 days of the end of the taxation period. The taxation period is usually one calendar month. However, if during the previous calendar year the VAT-payer's sales turnover was under SKK 10,000,000, the taxation period is a calendar quarter. A taxpayer may choose a calendar month as his tax period and notifies it to the tax office. A taxpayer may effect a change of the tax period from the first month following the lapse of a calendar quarter, and the tax period so chosen shall then apply till the end of the calendar year.

A summary statement regarding intra-EU supplies of goods must be filed within 25 days of the end of the calendar quarter.

Input VAT deduction

Deduction of input tax paid may be claimed on goods and services purchased for the performance of taxable supplies.

The VAT-payer is entitled to exercise the right to deduct VAT if :

- The tax liability arose.
- He has an invoice issued by a VAT-payer.

VAT cannot be reclaimed on the acquisition of personal cars (with the exception of those purchased by the VAT-payer, the scope of whose business covers the buying of cars for the purpose of their resale including purchases made under a leasing agreement with a purchase option), entertaining expenses, etc.

Entitlement to a deduction in the case of VAT-exempt supplies is reduced by a coefficient, which is calculated as the ratio of taxable supplies with VAT recovery entitlement to all taxable supplies.

Those services that are tax-exempt are specifically listed as such in the VAT Act. They include:

- Financial services
- Insurance
- Postal services
- Radio and television
- Transfer and lease of real estate
- Education and training
- Health care
- Social welfare
- Services provided to members
- Services connected to sport or physical education
- Cultural services
- Sale of postal stamps
- Duty stamps operating lotteries and similar games
- Sale of goods, where VAT was not deductible upon their acquisition
- Collection of financial funds used for own activity by persons who meet the conditions stipulated in the law

Certain real estate transactions, namely rentals, may be taxed at the discretion of the supplier, provided that such supplies are rendered to a VAT-payer.

VAT is not charged on exported goods or services provided that they are delivered to the place of destination within the territory of a third country to a legal entity, which does not have its base, residence or branch in Slovakia.

In general, the place of supply of service is the place where the supplier has his seat, place of business or fixed establishment from which the service is supplied. Some specified services have different the place of supply, for example, lease of movable property (with the exception of leasing vehicles), advertising, audit, bookkeeping and legal services, consultancy services, financial services and banking and insurance services. The place of supply of these services supplied to a person pursuing business in a Member State other than the Member State of the service supplier, or to the customer who has his seat or domicile in a third country, is the place where the person has his seat, place of business or fixed establishment.

VAT documents

On any supply of goods and services a taxpayer is obliged to draw up an invoice. The taxpayer is obliged to draw up an invoice in the event that the payment is received before the goods are supplied and before the provision of a service is completed. The taxpayer draws up an invoice no later than within 15 days of the rise of a tax liability. Where during a calendar month a taxpayer becomes liable to pay the tax as a result of receiving a payment and concurrently supplying the goods or service for

which he received the payment, the taxpayer may draw up one invoice, no later than within 15 days of the rise of the last tax liability in respect of this supply of goods or supply of services in this calendar month.

Also considered as an invoice shall be:

- An agreement on rent payments, which forms part of a lease contract;
- An agreement on payments, which forms part of a contract on supply of electricity, gas, water, heat, if covering a period of no more than 12 calendar months;
- A travel ticket issued by a public passenger transport operator, who is the taxpayer; or
- The stub section of a sticker confirming payment of the toll for using highways, motorways, and 1st-class roads in the territory of the country, which the service receiver keeps after separating the sticker.

Advanced payments

Advanced payments are subject to VAT in that period when they are received. The receiving company has to issue a VAT document (invoice) and has to pay the VAT out of that amount and for that period. The VAT document is not issued in only if the final invoice is issued in the same tax period (one month) as the payment on advance was received.

VAT refund

Foreign businesses can recover VAT obtained in Slovakia. VAT refund rules are based on provisions of the 8th and 13th EU Directives.

Foreign persons

A foreign person who is registered for VAT abroad, or is registered as a payer of a similar general consumption tax abroad, is entitled to claim a refund of Slovak VAT paid upon the delivery of certain goods or the provision of certain services, if the following conditions are met:

- The person did not have any seat, a place of business, a fixed establishment or residence in Slovakia during the period for which the VAT refund request was filed;
- The goods or services were purchased in Slovakia, or goods were imported to Slovakia for the purpose of his business activities carried out outside Slovakia; or
- During the period for which they filed a VAT refund request, they did not supply any goods or provide any services in Slovakia.

Refunds are made at the request of the foreign entity. Application should be prepared on the specified form and should be made in the Slovak language. Requests should be filed with the Tax Authority Bratislava I by

30th June of the year following the year when the VAT was applied on the supply of goods/services, or the VAT relating to the import was paid.

The request should be filed together with the originals of invoices, import documents and the list of the relevant invoices including a certificate of the requesting entity's VAT registration in the country of its registration (or its permanent address).

Foreign entities must file a request for a VAT refund within six months from the end of the calendar year for which the refund is claimed. This request may be filed only if the aggregate Slovak VAT paid in the respective calendar year exceeds SKK 1,000.

Foreign entities may also file requests for a VAT refund before the year-end for a period shorter than one calendar year; however, the request must refer to a period of at least three calendar months and the aggregate VAT paid in the respective period must exceed SKK 8,000. The VAT will be refunded by the Tax Authority Bratislava I within six months from the date of filing the request.

Conditions for claiming are:

- The entity is identified for VAT purposes in the country in which it has a registered office, establishment or branch;
- It did not have a registered office, branch or establishment within the territory of Slovakia during the period for which the request for the VAT refund was submitted;
- During the period of the claim, the foreign entity did not sell any goods or provide any services in Slovakia, other than services of international transportation and related auxiliary services, and supplies of goods with their assembly in respect of which the Slovak customer was the person liable to pay tax, the goods or services were purchased in Slovakia, or the goods were imported for the purpose of its business conducted abroad; or
- The Slovak VAT legislation would allow a taxpayer to recover this input VAT if the foreign entity were to perform its business in Slovakia.

It is not possible to claim a refund for VAT incurred for the provision of VAT-exempt services.

In addition, the tax authority is entitled to reject the application for the refund of VAT if the country in which the foreign entity is registered does not have a reciprocal VAT refund agreement with Slovakia.

Individuals

An individual with no residence permit in any EU country exporting goods (except fuel for personal purposes) from EU countries can file a

request for a VAT refund. The individual can submit a request for a VAT refund if:

- The amount of the goods exported outside the EU exceeds SKK 5,000;
- He possesses a document on purchase of goods issued by taxpayer;
- Export of goods is carried out within three months of the end of the month, in which the goods are purchased; or
- The Customs Office of any EU country certifies the export of goods.

Intrastat

The Intrastat system became fully applicable in Slovakia from May 1st 2004. Under this system, Slovak VAT-payers performing intra-Community transactions (sending/receiving goods to/from other EU member states) are obliged to report these transactions. It is permissible to appoint a third-party (agent) for Intrastat reporting. However, responsibility resides with the taxpayer.

Other taxes

Excise duties

The Excise Duties are governed by five separate acts, which set out the conditions under which excise duty is levied on mineral oils, pure alcohol and spirits – wine, beer and tobacco products. The tax treatment is fully compliant with the EU Directives. Taxable persons are all legal entities and natural persons who produce these excisable products in the Slovak Republic or to whom excisable products are released in Slovakia. Excise duties are stipulated in accordance with the EU legislation as a set amount per unit of measure for each group of products, except cigarettes where the tax rate is calculated different way.

Customs Duties

Since 1st May 2004 rates are based on the EU customs tariff and depend on the classification of goods and their origin. The customs duty is normally paid within 10 days from the date of importation of goods. Normally, payments cannot be deferred for more than 30 days.

Real estate transfer tax

The tax was abolished entirely with effect from 1st January 2005.

Real estate tax

Real property tax is a municipal tax paid by owners of buildings (including private and weekend houses), flats and land, or by tenants of land,

registered with the cadastral register, and is determined by the size, location and the type of buildings, flats and land.

The Real Estate Tax on buildings is computed as the number of square meters constructed, multiplied by the respective tax rate. The base tax rate is SKK 1.00 per square meter but the Municipal Authority may increase or decrease the rate and determine different rates for various types of buildings; the highest rate may not be higher than 40 times the lowest rate. In addition, the Municipality may impose a surcharge of up to SKK 10 per each additional floor.

Owners of land, or in specific cases tenants, must pay Real Estate Tax in respect of the land. The tax base of the land is the product of the area of the land and its official value per square meter. The base tax rate is 0,25% of the tax base but the Municipal Authority may increase or decrease the rate and determine different rates for various types of land; the highest rate may not be higher than 20 times the lowest rate. In case of land where a nuclear facility is located, the rate may not exceed 100 times the base rate.

Motor vehicle tax

The Motor Vehicle Tax is imposed on vehicles used for business purposes only. This includes private vehicles used for business purposes. The tax is payable annually by the holder of the vehicle who uses the vehicle for business purposes. The taxable base is determined as a combination of vehicle weight and number of axles for lorries and trailers and for personal cars the tax depends on the engine volume in cubic centimeters.

The tax rates are set by the regional self-administrations. The law stipulates minimum rates for lorries and trailers.

Tax treaties

When the Czech and Slovak Federal Republic (CSFR) split in 1993, the Slovak Republic acceded to the terms of tax treaties signed by the former CSFR. Since then, Slovakia has signed a number of new treaties. Currently, Slovakia has tax treaties with the countries shown in Appendix II.

Dividends

Effective 1 January 2004, dividends are exempted from tax, i.e. distribution of taxed profits will no longer be subject to tax at the recipient level.

Interests and royalties

The treaty rates below apply if the recipient is a beneficial owner of the income. Otherwise, the income is taxed under the law of the source country. Furthermore, the beneficial owner of the income should enclose

the tax residency certificate in order to apply the beneficial tax rates stipulated by the tax treaty.

Customs duties

Import duties are based on the General Agreement on Tariffs and Trade (GATT/WTO) – the internationally accepted list of tariffs. A range of relief is available. For example, the duty may be deferred in the case of import of assets for temporary circulation.

The Customs Code (EU regulation 2913/92) sets out the framework within which customs and the trade must operate.

International agreements

The former Czech and Slovak Federal Republic signed agreements with the European Union (EU) and the European Free Trade Association (EFTA), to which Slovakia has acceded, to reduce tariffs on a wide range of goods. In addition, Slovakia is a signatory to the Central Europe Free Trade Association (CEFTA) Agreement, along with Hungary, Poland, the Czech Republic, Slovenia, Bulgaria and Romania. Under the CEFTA agreement a free-trade zone has been created in Central and Eastern Europe. CEFTA aims gradually to reduce duties charged on goods moving between the member countries over coming years. For industrial goods, customs duties have been 0% since 2000.

Certification

Importers applying for free circulation of their goods are required by the customs authorities to present a valid certificate of conformity. Certificates are issued by the relevant state bodies and should ensure that the quality of the imported goods complies with the compulsory quality standards valid in Slovakia.

7. Accounting & reporting

Applicable regulations

Fixed accounting regulations and disclosure requirements are applicable to companies performing business activities in Slovakia prescribed by the Slovak Ministry of Finance in the form of a law, measure or regulation.

The most important are: Act No. 431/2002 - version of later appointments (562/2003 coll) on accountancy, Regulation No. 23 054/2002-92, Regulation No. 23 586/2002-92, Regulation No. 4455/2003-92 regulating extent, method and provability of accounting and financial statements.

The companies also have to take into consideration the valid tax regulations.

Accounting principles and requirements

Slovak accounting standards are governed by the Act of Accounting which regulates general accounting principles, maintaining and closing the books, asset and liability valuation, profit and loss calculation, financial statements formats and auditing requirements. There are also requirements contained in the Commercial Code and decrees issued by the Ministry of Finance. Starting from 2005 statutory consolidation procedures have been abolished and all consolidated financial statements should be prepared exclusively according to IFRS. Additionally, starting from 2006, all banks, insurance companies, listed companies and certain other large companies will be obliged to prepare their individual financial statements according to IFRS.

Chart of accounts

There are separate statutory charts of accounts and accounting procedures for:

- Entrepreneurs (most businesses fall within this category).
- Banks.
- Insurance companies

There are also separate charts for non-profit organizations, municipalities, political parties, social insurance organizations, the EXIM (Export-Import) Bank, etc.

There are prescribed digit ledger account codes (synthetic accounts) for each class and optional sub-ledger accounts (analytic accounts). As a

result, companies cannot maintain their books in accordance with group accounting rules and simply convert to the Slovak statutory format at year-end. A practical solution may be to set up an analytic account that can be used for both statutory and internal group reporting.

Slovak entities are required to maintain a full set of double-entry books in the Slovak language. The transactions must be recorded in Slovak currency. For some items, such as receivables and payables, shares, immovables held abroad, etc, the transactions must also be recorded in foreign currency. Full year-end financial statements (including balance sheet, profit and loss account, cash flow statements and notes to the financial statements) must be filed with the tax authorities.

The chart of accounts for entrepreneurs contains the following accounting classes:

| Class | Description |
|-------|---|
| 0 | Non-current assets |
| 1 | Inventory |
| 2 | Financial accounts |
| 3 | Debtors and creditors |
| 4 | Capital accounts and non-current liabilities |
| 5 | Expenses |
| 6 | Income |
| 7 | Closing accounts and off-balance sheet accounts |

Financial statements

The year-end financial statements consist of a balance sheet, profit and loss account and notes to the financial statements including cash flow statement. The notes must contain information to assess the entity's assets, liabilities, financial position and results. These include the accounting principles, valuation methods and depreciation rates used in the period. The balance sheet and income statement must be prepared on pre-printed forms, and the cash flow statement and the notes are specified in detail by the Ministry of Finance.

Consolidated financial statements must be audited. Consolidation methods are prescribed by the Ministry of Finance and are similar to IFRS.

Publication of data

A company (all legal persons) registered with the Commercial Register is obliged to file its financial statements and annual report with the Registration Court within 30 days after their approval on its General Meeting.

The financial statements and the company's tax return must be submitted to the local tax authority by March 31st following the calendar year-end. Time extensions may be granted until June 30th for returns prepared by a registered tax advisor and until September 30th for returns of companies with foreign-source income.

Audits

Slovakia is adapting its auditing standards to international standards. Currently, the Slovak Chamber of Auditors has approved the first 41 Slovak Auditing Standards which are based on the International Standards on Auditing.

Under accounting law, the following entities are required to have their financial statements audited:

- All Slovak joint stock companies, banks and municipalities; and
- Business entities that are obliged to create initial capital, e.g. limited liability companies and co-operatives, if they met any two of the following conditions in the year preceding that for which the financial statements are to be audited: total value of the entity's assets exceeded SKK 20 million; i.e. of the gross assets, without deduction of depreciation expenses, accumulated depreciation, etc; the entity's net turnover exceeded SKK 40 million. For this purpose, net turnover means revenues from the sale of products and goods and from the provision of services; the average number of employees exceeded 20. The average number of employees should be calculated as the average at the end of the particular quarter of the calendar year.

The audit of the financial statements must be performed by the end of the year following the year for which the financial statements or annual report were prepared.

All entities requiring an audit must publish an excerpt from their financial statements, accompanied by an audit opinion.

The compulsory audited entities must also publish an audited annual report including financial statement information (at least an excerpt), an audit opinion, a summary description of operations and activities during the period, and the forecast of the entity.

Significant changes

Significant changes since 1 January 2004 are:

- In addition to the balance sheet prepared according to Slovak law, it is possible to prepare it according to the international accounting standards (IAS).
- Until the write-off of activated incorporation expenses, limits exist in respect of the payment of dividends and directors' fees.
- Fines to be imposed by the Financial Office in the case of the non-observance of legal provisions have been specified in more detail.
- Unless accounting documents are in Slovak language, their content must be unambiguous and understandable. This means in practice that the documents will have to be translated.
- Business entities entered in the Commercial Register are obliged to publish in the Bulletin their annual financial statements and their annual report within 30 days after their approval. This is a personal obligation of the managers of the company and a sanction of up to SKK 100,000 can be imposed for non-observance.
- Signatures in electronic form are recognized as signatures in own hand.
- The denomination of a foreign currency to Slovak currency of assets and liabilities has to be translated according to the exchange rate of the National Bank of Slovakia at the date of the balance sheet (not the financial statement).
- Information about related parties in the financial statement is no longer required.

8. UHY firms in Slovakia

Auditor SK s.r.o.

Sládkovičova 7
811 06 Bratislava
Slovakia

Tel.: + 42 1 2 544 14 660
Fax: + 42 1 2 544 14 972
Email: bratislava@auditor-eu.com
Website: <http://www.auditor-eu.com>
Contact: Georg Stöger

9. UHY offices worldwide

UHY offices

For contact details of UHY offices worldwide, or for details on how to contact the UHY executive office, please visit www.uhy.com

Appendix I – Useful web addresses

| | |
|---|---|
| Bank of Slovakia | www.nbs.sk |
| Globaledge | http://globaledge.msu.edu |
| CIA world fact book | www.cia.gov |
| Statistical office of the Slovak Republic | www.statistics.sk |
| CEE Market | www.ceemarket.com |
| Konrad- Adenauer- Stiftung e.V. | www.kas.de |
| | www.slovensko.com |
| Ministry of finance of the Slovak Republic | www.finance.gov.sk |
| Ministry of foreign affairs of the Slovak Republic | www.foreign.gov.com |
| The guide to Slovakia | www.slovakia.org |
| Foreign investment | www.sario.sk |
| Permanent conference of CED on business environment | www.alianciapas.sk |

Appendix II – Tax treaty agreements

| Country | Dividends* (%) | Interest (%) | Royalties (%) |
|-----------------------------|-------------------|-------------------|--------------------|
| 1. Australia | 15 | 10 | 10 |
| 2. Austria | 10 | 0 | 0/5 (l) |
| 3. Belarus | 10/15 (d) | 0/10 (c) | 5/10 (l)(m) |
| 4. Belgium | 5/15 (d) | 0/10 (s) | 5 |
| 5. Bosnia - Herzegovina | 5/15 (d) | 0 | 10 |
| 6. Brazil | 15 (l) | 0/10/15 (c)(k) | 15/25 (p) |
| 7. Bulgaria | 10 | 0/10 (c) | 10 |
| 8. Canada | 5/15 (b) | 0/10 (c) | 0/10 (l) |
| 9. China | 10 | 0/10 (c) | 10 |
| 10. Comecon Legal Entities* | 0 | 0 | 0 |
| 11. Comecon Individ.* | 0 | 0 | 0 |
| 12. Croatia | 5/10 (d) | 10 | 10 |
| 13. Cyprus | 10 | 0/10 (c) | 0/5 (l) |
| 14. Czech Republic** | 5/15 (c) | 0 | 10 |
| 15. Denmark | 15 (l) | 0 | 0/5 (l) |
| 16. Finland | 5/15 (d) | 0 | 0/1/5/10 (l)(w) |
| 17. France | 10 | 0 | 0/5 (l) |
| 18. Germany | 5/15 (d) (e) | 0 | 5 |
| 19. Greece | - (x) | 0/10 (c) | 0/10 (l) |
| 20. Hungary | 5/15 (d) | 0 | 10 |
| 21. India | 15/25 (d) | 0/15 (c)(s) | 30 (f) |
| 22. Indonesia | 10 | 0/10 (c) | 10/15 (l) |
| 23. Ireland | 0/10 (d) | 0 | 0/10 (l) |
| 24. Israel | 5/10 (b) | 2/5/10 (t) | 5 |

| | | | |
|--------------------------|-------------|----------|-----------|
| 25. Italy | 15 | 0 | 0/5 (l) |
| 26. Japan | 10/15 (g) | 0/10 (c) | 0/10 (l) |
| 27. Latvia | 10 | 0/10 (c) | 10 |
| 28. Luxembourg | 5/15 (d) | 0 | 0/10 (l) |
| 29. Macedonia | 5/15 (d) | 0 | 10 |
| 30. Malta | 5 (u) | 0 | 5 |
| 31. Netherlands | 0/10 (d) | 0 | 5 |
| 32. Nigeria | 12.5/15 (b) | 0/15 (c) | 10 |
| 33. Norway | 5/15 (d) | 0 | 0/5 (l) |
| 34. Poland | 5/10 (n) | 0/10 (c) | 5 |
| 35. Portugal (z) | 15 | 0/15 (c) | 10 |
| 36. Romania | 10 | 0/10 (c) | 10/15 (r) |
| 37. Russian Federation | 10 | 0 | 10 |
| 38. Slovenia | 5/15 (d) | 0 | 10 |
| 39. South Africa | 5/15 (d) | 0 | 10 |
| 40. Spain | 5/15 (d) | 0 | 0/5 (q) |
| 41. Sri Lanka | 0/6/15 (h) | 0/10 (o) | 0/10 (i) |
| 42. Sweden | 0/10 (d) | 0 | 0/5 (l) |
| 43. Switzerland | 5/15 (d) | 0/10 (j) | 0/5 (l) |
| 44. Tunisia | 10/15 (d) | 0/12 (c) | 5/15 (l) |
| 45. Turkey | 5/15 (d) | 0/10 (c) | 10 |
| 46. Turkmenistan | 10 | 0/10 (c) | 10 |
| 47. Yugoslavia | 5/15 (d) | 10 | 10 |
| 48. Ukraine | 10 | 10 | 10 |
| 49. United Kingdom | 5/15 (v) | 0 | 0/10 (l) |
| 50. USA | 5/15 (b) | 0 | 0/10 (l) |
| 51. Non-treaty countries | 19 | 19 | 19 |

*Please see the above section on the taxation of dividends according to new ITA.

- (a) The lower rate applies to dividends paid to a company that owns more than 10% of the capital of the payer of the dividends.
- (b) The lower rate applies if the beneficial owner is a company that controls at least 10% of the voting power of the payer.
- (c) The lower rate applies to interest on government loans.
- (d) The lower rate applies if the recipient is a company that directly holds at least 25% of the capital of the payer of the dividends.
- (e) If the corporate tax rate on distributed profits in a contracting state is 20% lower than the corporate tax rate on undistributed profits, the withholding tax rate may be increased to 25%.
- (f) This rate also applies to fees for technical services.
- (g) The 10% rate applies if the recipient is a company that owns at least 25% of the voting shares of the payer during the six-month period immediately preceding the date of payment of the dividends.
- (h) The 15% applies to dividends paid by Slovak companies to Sri Lankan recipients. The 0% rate applies to dividends paid by Sri Lankan companies to Slovakian recipients, except for Sri Lankan income tax and additional tax under Sri Lanka's tax law. A maximum tax rate of 6% applies to the additional tax.
- (i) The 0% rate applies to royalties relating to copyrights and films derived from sources within one of the contracting states.
- (j) The 0% rate applies to interest paid on bank loans or on loans for the purchase of goods or industrial, trade and scientific equipment. The 10% rate applies to other interest payments.
- (k) The 10% applies if the recipient is the beneficial owner of the interest and if the interest is paid on a loan granted by a bank for a period of at least 10 years in connection with the sale of industrial equipment or the installation or furnishing of scientific units or public works.
- (l) The lower rate applies to cultural royalties, which are defined as the right to use copyrights of literary, artistic or scientific works, including cinematographic films.
- (m) The higher rate also applies to payments for the right to use transport vehicles.
- (n) The lower rate applies if the recipient is a company (other than a general partnership) directly holding at least 20% of the capital of the payer.
- (o) The 0% rate applies to interest paid to banking institutions, interest paid on government loans and interest paid by the government or other state institutions.

- (p) The 25% rate applies to royalties paid for trademarks.
- (q) The 5% rate applies if the royalties are taxable in Spain. Otherwise, the rate is determined in accordance with the law of the source country. The 0% rate applies to cultural royalties, except for royalties for films.
- (r) The lower rate applies to industrial royalties.
- (s) The lower rate applies to the following types of interest:
 Interest paid by commercial debt claims (including debt claims represented by commercial paper) that result from deferred payments for goods, merchandise or services supplied by an enterprise;
 Interest paid on loans made, guaranteed or insured by public entities that are intended to promote exports;
 Interest paid on current accounts or loans that are not represented by bearer instruments between banks or public credit institutions of the contracting states; and
 Interest paid to the other contracting state, public subdivision or local authority.
- (t) The 2% rate applies to interest on government loans. The 5% rate applies to interest paid to financial institutions.
- (u) The tax on Malta in dividends may not exceed the tax on the profits out of which the dividends are paid.
- (v) The lower rate applies to dividends paid to a company that owns more than 25% of the voting power of the payer of the dividends.
- (w) The 1% rate applies to payments under a financial lease of equipment. The 5% applies to payments under an operating lease of equipment, as well as to payments for the right to use cinematographic films and software for personal computers.
- (x) Dividends may be taxed in both contracting states in accordance with the domestic laws in the states.
- (y) This treaty, which will replace the existing treaty between the countries, is in the process of being ratified. Under the new treaty, the withholding tax rate for royalties will be 10%.
- (z) This treaty was signed, but is not valid and it has not yet been published in the Collection of Laws.