WEINHOLD LEGAL

Doing Business in Slovakia

Break new ground in Slovakia. Navigate a way through the business landscape.

To establish a prosperous enterprise in the Slovak Republic, investors must understand the local landscape. This means not only understanding local regulations and market conditions, but also being able to navigate through the rapidly changing environment of a developing legal and business culture.

Investors need a partner to help address issued and, in doing so, discover and leverage opportunities and value for their enterprise - whether existing or prospective.

At the same time, investors need a partner who understands the needs and expectations of international business, who can „speak their language“, and provide fast and innovative solutions to help them achieve their business objectives.

At Weinhold Legal, we can give investors the right advice to help them navigate the business environment. We have a dedicated team of professionals which provide specialized legal services in all areas of commercial and financial law.

Our branch office in Slovakia was founded in 1998, and since then we have advised a large number of leading businesses in Slovakia on diverse aspects of corporate law, mergers & acquisitions, labour, transactions, privatization, due diligence, insurance, banking & financial, IT/IP, real estate and construction issues, as well as competition issues and related areas. Our experts also have significant experience in litigation, arbitration and EU law.

The strength of Weinhold Legal lies in our ability to combine worldwide expertise with local know-how, and draw upon this knowledge to devise practical solutions for multinational companies and strategic Slovak companies in a transactional setting. We are able to achieve a high level of efficiency in the provision of legal services, and at the same time offer sound and timely advice on all legal aspects of a transaction. Weinhold Legal is capable of ensuring international legal advice in more than 20 countries.

We can integrate professional services into comprehensive business solutions for our clients. We offer an integrated approach to transaction support, incorporating the work of financial, tax and legal experts.

We look forward to discussing investors’ business plans and how we can work to make them a success.

Daniel Weinhold
Managing Partner of Weinhold Legal

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Chapters Taxation and Accounting principles and requirements have been prepared in co-operation with Ernst & Young.

The guide is correct to the best of our knowledge and belief at the time of going to press. It is, however, written as a general guide, so it is recommended that specific professional advice be sought before any action is taken.

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Establishing a business presence

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Overview

The Slovak Commercial Code and other specific laws provide a variety of options for structuring business entities in the Slovak Republic. All business entities must be registered in the Slovak Commercial Register. The legal forms available are as follows:

- 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.)
- Cooperative (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 hold 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 the Slovak Republic.

Moreover, in line with European Community law, Slovak law recognizes and partially regulates the following legal entities:

- European company (európska spoločnosť)
- European economic interest group (európske zoskupenie hospodárskych záujmov)
- European cooperative society (európske družstvo)

Registration requirements

The registration of legal entities in the Commercial Register requires, among other, the following documents and procedures:

- Foundation deed (or a similar foundation document) and company's articles of association (if applicable)
- 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)
- Compliance with any minimum capital requirements (if applicable)

Special approval, rather than a trade license, is required in areas such as banking, finance, and defense.

Both foreigners and Slovak citizens may head local entities, but foreigners are required to hold a temporary residence permit before they can be entered as statutory representatives in the Commercial Register. This does not apply to citizens of the EU and OECD member states.

Entities may officially commence activities as soon as they have been entered in the Commercial Register. Any obligations entered into prior to the company's entry in the Commercial Register should pass onto the company, if the relevant company body approves such obligations within three months of the date of its registration.

According to Act No. 530/2003 Coll. on Commercial Register, a register application has to be filled and submitted to the competent Commercial Register (registration court) as a standard form. With the effect as of 1 August 2007 it will be possible to submit applications electronically.

Each application has to be accompanied by documents specified by law for the particular type of registration (e.g. registration or deregistration of a new legal entity, change of the

statutory body of the legal entity, etc.).

If the submitted documents are in a language other than Slovak, they must be officially translated into Slovak. Other requirements, as the notarization of signatures, Apostille under the 1961 Hague Convention, etc. may also apply.

The registration process takes approximately one week.

Options 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 have a trade license or other authorisation and provide a full 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 enterprise's and branch's internal dealings. This continues to apply if the foreign legal entity transfers its registered seat from abroad to the Slovak Republic.

Management

Entities establishing an enterprise or a branch must appoint a director (manager) to head the enterprise or branch and register him/her in the Commercial Register. This person can be either a Slovak national or a foreigner with a valid temporary Slovak residence permit. Foreign individuals who are citizens of the EU and OECD member states are not required to hold temporary Slovak residence permits for the purposes of registering the head of the enterprise or a branch in the Slovak Commercial Register.

Special features

- Enterprises and Branches of foreign entities (with the exception of a branch of a foreign bank) are in general treated as foreign exchange non-residents under the Foreign Exchange Act
- No minimum capital requirements
- No audit required
- No withholding taxes on profit repatriation

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 either 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 or EUR 25,000 if the nominal value of the shares is denominated in EUR. Non-monetary contributions must be valued by an official appraiser.

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

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

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 for 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 types are transferable. There is no option to issue employees` shares as a specific type of shares. When increasing the registered capital of the company, employees are permitted, based upon a decision of the General Meeting of Shareholders, to acquire company shares for a lower price.

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

Squeeze-out

As of 1 January 2007 a minority shareholders squeeze-out procedure related to companies with listed securities in the Slovak Republic or other EU Member State has been introduced into Slovak law.

The respective provisions of the Slovak Act on Securities allow the majority shareholder who holds shares the total nominal value of which amounts to at least 95% of the target company's registered capital with which voting rights and, at the same time, a 95% share of the target company's voting rights are connected, to obtain a full control over the target company by way of buying-out all shares from the remaining minority shareholders. The buy-out right shall be effective vis-à-vis the minority shareholders after a prior approval of the National Bank of Slovakia only.

An adequate consideration has to be offered to the minority shareholders either in form of a monetary compensation, compensation in form of securities or a combination of both. The minority shareholders may request the court to review the adequacy of the offered compensation.

Minority shareholders shall accept the proposal of the majority shareholder within the time-limit set in the proposal, otherwise within 10 days following the aforesaid approval National Bank of Slovakia. Otherwise, the majority shareholder may request the court to substitute their acceptance with a court decision.

Company bodies

The General Meeting of Shareholders is the company's 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. The 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 acts in the company's name in accordance with 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 financial statements as well as extraordinary financial statements 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 one half) of the members are elected and recalled 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 is supplemented until it reaches the level stipulated in the company's Articles of Association which must be at least 20% of the registered capital.

The statutory minimum reserve fund may be used only to cover company losses.

Dissolution

A joint-stock company may be dissolved e.g.:

- when bankruptcy proceedings are cancelled under certain conditions;
- by a resolution of the General Meeting of Shareholders;
- when the period for which it was established has expired;
- by a court decision.

Pledge over shares

The shares can be pledged on the basis of a written Pledge Agreement. The pledge has to be registered with the Register of Pledges kept by the Central Depository of Securities of the Slovak Republic in accordance with the Slovak Securities Act.

Shares issued in paper form have to be marked by the Central Depository of Securities of the Slovak Republic with a "subject to pledge" clause and by the pledgor with a pledge endorsement.

Special features

- Minimum registered capital of SKK 1 million or EUR 25,000. The company's registered capital must be fully subscribed and at least 30% of monetary contributions and all non-monetary contributions must be paid up prior to submission of the registration application to the Commercial Register
- 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 limited liability company or a German GmbH. 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, in particular, the company's activities, its 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 or EUR 5,000 if the value of the registered capital is denominated in EUR, whereas each partner's minimum contribution must be at least SKK 30,000 or EUR 750 if the value of the registered capital is denominated in EUR. Non-monetary contributions must be valued by an official appraiser. At least 30% of each partner's monetary contribution and all non-monetary contributions must be paid up prior to the submission of the registration application to 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 or individual, 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 set out in the Memorandum of Association. However, if not established on the company's incorporation, the reserve fund must be established following 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 is to be supplemented until it reaches the level stipulated in the Memorandum of Association which must be at least 10% of the registered capital.

The statutory minimum reserve fund may be used only to cover the company's losses.

Supervisory Board

A Supervisory Board may be established, but is not a legal requirement 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 as stipulated in the Founder's Deed (Agreement).

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 or EUR 5,000 if the value of the registered capital is denominated in EUR, with a minimum paid-up contribution of SKK 30,000 or EUR 750 per partner. The amount of the paid-up monetary contributions together with the value of all non-monetary contributions should be at least SKK 100,000 prior to the submission of the registration application to the Commercial Register.
- A company with a sole partner may not be the sole partner of another company.
- An individual may not be the sole partner in more than three companies.
- An annual or extraordinary audit is only required once the criteria stipulated by law (turnover, assets and the number of employees) are met (see "Reporting and Auditing").
- Maximum of 50 partners.
- A reserve fund must be established once the company becomes profitable.
- 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 contributions 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.

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 up to the extent of his/her unpaid contributions in the partnership (the contribution has to be at least SKK 10,000). However, should the commercial name of the company contain the name of the limited partner, such partner is liable for the obligations (debts) of the company as a general partner. Moreover, should a limited partner conclude a contract on behalf of the partnership 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;
- 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 contribution from general partners is required
- The limited partner's contribution has to be at least SKK 10,000
- At least one partner must bear general liability for the partnership's obligations
- No audit is required
- No corporate bodies must be established
- 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 activities of the company 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.:

- upon a partner being declared bankrupt;
- 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 ceasing to exist of a partner who is a legal entity; or
- upon notice being 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
- No corporate bodies need to be established
- No reserve fund required

Other

Cooperative (družstvo)

Cooperatives may be founded by a minimum number of five members (individual or legal entities); this does not apply if at least two of the members are legal entities. The minimum foundation capital is SKK 50,000 or EUR 1,250 if the value of the registered capital is denominated in EUR.

The cooperative's supreme body is the Members' Meeting, which is held at least annually. Unless the Articles of Association stipulate otherwise, each member of the cooperative has one vote at the Members' meeting.

The Members' Meeting elects a Board of Directors to manage the day-to-day affairs of the cooperative in keeping with the Members'

Meeting's decisions. The Board of Directors is the statutory body of the cooperative.

The Members' Meeting also elects an Audit Committee with at least three members to perform regulatory and ombudsman functions.

If the cooperative has fewer than 50 members, the Members' Meeting may perform the functions of the Board of Directors and Audit Committee.

Members do not bear liability for the cooperative's obligations.

Cooperatives may be dissolved, e.g.:

- when bankruptcy proceedings are cancelled under certain conditions;
- by a decision of the Members' Meeting;
- if the period for which it was established has expired;
- by a court decision;
- when the cooperative has achieved the purpose for which it was founded.

The European Company (Societas Europaea – SE)

Act No. 562/2004 Coll. on European Company (Act) regulates some aspects of a European Company (SE) with its registered office in the Slovak Republic. The Act follows on from Council Regulation (EC) No 2157/2001 (Regulation), which provides the option to form an SE. An SE has been able to operate on a Europe-wide basis since 8 October 2004.

Purpose

In practice, the creation of an SE means that companies established in more than one Member state are able 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 registered office of an SE is to be located within the Community, in the same Member State as its head office.

In accordance with the Act, if any matters relating to the status (e.g. foundation, non-competition, winding-up, liquidation) or legal relationship of an SE with its registered office in the Slovak Republic are regulated neither by the Regulation nor by the Act, these shall be governed by the respective provisions governing the joint stock company.

Foundation

In general, an SE may be set up in one of four ways:

- by the merger of two or more existing joint stock companies with registered offices and head offices within the Community, provided that at least two of them are governed by the law of different Member states;
- by the formation of a holding company promoted by joint stock companies and limited liability companies with registered offices and head offices within the Community, provided that each of at least two of them (a) are governed by the law of a different Member State, or (b) have for at least two years had a subsidiary company governed by the law of another Member State or a branch situated in another Member State;
- by the formation of a subsidiary of companies

with registered offices and head offices within the Community, provided that each of at least two of them (a) are governed by the law of a different Member State, or (b) have for at least two years had a subsidiary company governed by the law of another Member State or a branch situated in another Member State;
- by the transformation of a joint stock company if for at least two years it has had a subsidiary company governed by the law of another Member State.

Commercial companies, having their head offices outside any Member State or any EEA state, may also (under the conditions stipulated by the Regulation) participate in the establishment of an SE with its registered office in the Slovak Republic.

Any SE with its registered office in the Slovak Republic has to be registered with the Slovak Commercial Register.

The Regulation allows an SE registered in one Member State to move its registered office to another Member State, subject to the fulfillment of requirements.

In accordance with the Act, subsequent to the move of the registered office from the Slovak Republic to another Member State, the Commercial Court will delete the SE from the Slovak Commercial Register. If an SE with its registered office in the Slovak Republic moves its head office to another Member State and if, based on a subsequent appeal to the Commercial Court, an SE does not move its head office back to the Slovak Republic or does not move its registered office to this Member State, the Commercial Court may wind up the SE.

In situations involving the establishment of an SE by a merger or by the formation of a holding company, as well as in situations involving moving the registered office of an SE from the Slovak Republic to another Member State, the Act provides for the protection of the minority shareholders and creditors.

Subscribed capital

An SE is a legal entity with subscribed capital of not less than EUR 120,000. The subscribed capital must always be denominated in EUR. The subscribed capital is to be divided into shares held by the shareholders.

Liability

A shareholder is not liable for more than the amount that he/she subscribed and has not paid up.

Company bodies

An SE is to have the following bodies (a) General Meeting and (b) either a Supervisory Board and a Board of Directors (two-tier system) or an Administrative Board (one-tier system). In accordance with the Act, one or more shareholders who together hold at least 5% of an SE's subscribed capital may request that the SE convene a General Meeting (the by-laws may provide the right to convene a General Meeting also to shareholders holding a smaller proportion).

Employee participation

The Act implements the Council Directive 2001/86/EC on worker involvement in an SE, on the basis of which employees may participate in the management of an SE. Participation in the management of an SE includes the right to influence the decision-making process of an SE's bodies, the right to information and discussion and, in some situations, the right to elect or to be elected or appointed, or to suggest or disagree with the election or appointment of the members of the Administrative Board or Supervisory Board.

The European Economic Interest Group (EEIG)

Act. No. 177/2004 Coll. on European Economic Interest Group (Act) regulates some aspects of a European Economic Interest Grouping (EEIG) with its official address in the Slovak Republic. The Act follows on from Council Regulation (EEC) No 2137/85 (Regulation), which provides the option to form an EEIG. An EEIG has been able to operate on a Europe-wide basis since 1 July 1989.

Purpose

The purpose of an EEIG is to facilitate or develop the economic activities of its members and to improve or increase the results of those activities by a pooling of resources, activities or skills. It is not intended that an EEIG should make profits for itself. If it does make any profits, they will be apportioned among the members in the proportions laid down in the Founding Agreement or, in the absence of any such provision, in equal shares. Its activities must be related to the economic activities of its members and must not be more than ancillary to those activities.

In accordance with the Act, if any matters relating to the status of an EEIG (e.g. foundation, non-competition, winding-up, liquidation) or legal relationship between the founders of an EEIG, between members of an EEIG and the EEIG or amongst the members of an EEIG are regulated neither by the Regulation nor by the Act, the general provisions of the Commercial Code on commercial companies and on commercial obligations will apply accordingly.

Foundation

An EEIG can be formed:

- by companies, firms and other legal entities governed by public or private law which have been formed in accordance with the law of a Member State and which have their registered office or central administration in the Community and at least two of which have their central administration in a different Member State;
- by individuals carrying on an industrial, commercial, craft or agricultural activity or providing professional or other services in the Community and at least two of which carry out their principal activities in a different Member State;
- by a company, firm or legal entity and a natural person the first of which has its central administration in one Member State and the second of which carries out his principal activity in another Member State.

In accordance with the Regulation, an EEIG is to be established by a Founding Agreement containing the mandatory essentials. The Founding Agreement must be filed with the Slovak Commercial Register.

The official address of an EEIG may be transferred within the Community. Any EEIG with its official address in the Slovak Republic has to be registered with the Slovak Commercial Register.

Subscribed capital

An EEIG is a legal entity with no obligation to subscribe capital.

Liability

The members have unlimited liability, jointly and severally, for an EEIG's debts and liabilities. The members are to contribute to the payment of the amount by which expenditures exceeds income in the proportions laid down in the Founding Agreement or, in the absence of any such

provision, in equal amounts.

Company bodies

The bodies of an EEIG are to be (a) the members acting collectively and (b) the Executive or Executives as the statutory body.

The members, acting as a body, may take any decisions for the purpose of achieving the aims of an EEIG. The Regulation provides for situations when a unanimous decision is required, in particular, to alter the aims, alter the conditions for taking decisions, alter the contribution of every member to an EEIG's financing, make any changes and amendments to the Founding Agreement, set the conditions for the appointment and removal of the Executive as well as its powers and admit new members.

An EEIG is to be managed by one or more natural persons as the executives appointed in the Founding Agreement or by decision of the members.

Termination of a member's participation in an EEIG

The participation of a member in an EEIG may terminate upon:

- the assignment of his/her participation to another member or a third party (with the unanimous authorization of other members);
- his/her withdrawal on just and proper grounds;
- his/her expulsion by court decision upon an application of other members for reasons as stated in the Founding Agreement and in the Regulation;
- his/her death;
- his/her no longer complying with the conditions laid down by the Regulation for his/her participation;
- a declaration of bankruptcy over the member's assets or the rejection of the declaration of bankruptcy on the grounds of insufficient assets.

The European Cooperative Society (Societas Cooperativa Europaea – SCE)

Act No. 91/2007 Coll. on European Cooperative Society (Act) regulates some aspects of a European Cooperative Society (SCE) with its registered office in the Slovak Republic. The Act follows on from Council Regulation (EC) No 1435/2003 (Regulation), which provides the option to form an SCE. An SCE has been able to operate on a Europe-wide basis since 18 August 2006.

Purpose

The principal object of an SCE is the satisfaction of its members' needs and/or the development of their economic and/or social activities, in compliance with principles laid down by the Regulation.

The registered office of an SCE has to be located within the Community, in the same Member State as its head office.

In accordance with the Act, if any matters relating to the status or legal relationship of an SCE with its registered office in the Slovak Republic are regulated neither by the Regulation nor the Act, these shall be governed by the respective provisions governing the cooperative. Moreover, in cases stipulated by the Regulation, matters related to the status or legal relationship of an SCE with its registered office in the Slovak Republic shall be governed by the respective provisions governing the joint stock company.

Foundation

In general, an SCE may be formed:

- by five or more natural persons resident in at least two Member States;
- by five or more natural persons and companies or cooperatives and other legal bodies governed by public or private law, formed under the law of a Member State, resident in, or governed by the law of, at least two different Member States;
- by companies or cooperatives and other legal bodies governed by public or private law formed under the law of a Member State which are governed by the law of at least two different Member States;
- by a merger between cooperatives formed under the law of a Member State with registered offices and head offices within the Community, provided that at least two of them are governed by the law of different Member States;
- by the conversion of a cooperative formed under the law of a Member State, which has its registered office and head office within the Community if for at least two years it has had an establishment or subsidiary governed by the law of another Member State.

A legal entity having its head office outside of any Member State may also (under conditions stipulated by the Regulation) participate in the establishment of an SCE with its registered office in the Slovak Republic.

Any SCE with its registered office in the Slovak Republic has to be registered with the Slovak Commercial Register.

The Regulation allows an SCE registered in one Member State to move its registered office to another Member State, subject to the fulfilment of certain requirements.

In accordance with the Act, subsequent to the transfer of the registered office from the Slovak Republic to another Member State, the Commercial Court will delete the SCE from the Slovak Commercial Register, however, provided that the requirements pursuant to the Regulation have been fulfilled.

If an SCE with its registered office in the Slovak Republic transfers its head office to another Member State and if, based on a prior request of the Commercial Court, such SCE will not transfer its head office back to the Slovak Republic or its registered office to this Member State, the Commercial Court will decide on the winding-up of the SCE.

Subscribed capital

The subscribed capital of an SCE shall not be less than EUR 30 000. It shall be expressed in the national currency. The laws of the Member State requiring a greater subscribed capital for legal bodies carrying on certain types of activities shall apply to SCEs with registered offices in that Member State. The capital may be formed only of assets capable of economic assessment.

The subscribed capital of an SCE shall be represented by the members' shares, expressed in the national currency as well. The shares shall be held by named persons. The statutes of an SCE shall lay down the minimum number of shares which must be subscribed for in order to qualify for membership.

It is allowed to issue more than one class of shares. The statutes of the SCE may provide that different classes of shares shall confer different entitlements with regard to the distribution of surpluses. Shares conferring the same entitlements shall constitute one class. The nominal value of shares in a single class shall be identical. Shares may not be

issued at a price lower than their nominal value.

Shares issued for cash shall be paid for on the day of the subscription to not less than 25 % of their nominal value. Shares issued otherwise than for cash shall be fully paid for at the time of subscription.

Liability

Unless otherwise provided by the statutes of the SCE when that SCE is formed, no member shall be liable for more than the amount he/she has subscribed. Where the members of the SCE have limited liability, the name of the SCE shall end in 's ručením obmedzeným' (limited).

Company bodies

An SCE shall have the following bodies: (a) a general meeting and (b) either a Board of Directors and a Control Committee (two-tier system) or an Administrative Board (one-tier system). The Administrative Board shall appoint a General Director as the statutory body of the SCE and may appoint one or more Executive Directors who will manage and administrate the ordinary business of the SCE.

Employee participation

The Act implements the Council Directive 2003/72/EC supplementing the statute for an SCE with regard to the involvement of employees. The employees of an SCE with its registered office in the Slovak Republic as well as the employees of subsidiaries and of branches of such SCE are entitled to participate in the SCE under the conditions set forth by the Act. The participation of employees includes the right to information, to discussion, and the right to participate in the management of the SCE by election or appointment, or suggestion or disagreement with the election or appointment of the members of the Control Committee or the Administrative Board.

Securities

Legislation and regulations

The principal legislation regulating securities markets includes:

- the Securities Act covering securities, securities contracts, reporting requirements, securities traders, Central Depository of Securities of the Slovak Republic, Safeguard Fund and state supervision;
- the Bond Act dealing with the issue of bonds;
- the Commercial Code covering the issue of shares, rights attached to shares; and
- the Law on Collective Investments dealing with collective investments and the protection of investors.

The regulatory and supervisory bodies concerned with securities trading are:

- the National Bank of Slovakia, and
- the Slovak Ministry of Finance (regulatory body);

Public Market

Bratislava Stock Exchange
In the Slovak Republic, the Bratislava Stock Exchange (BSSE) is the main market operator trading in securities (currently, only shares, bonds and unit certificates are traded).

The BSSE operates two markets: the listed securities market and the free market.

The trading rules and requirements for the issuers of securities differ between the markets (e.g. on the listed securities market specific notification duties have to be fulfilled). Stock exchange trading can only be performed through a securities broker who is a member of the BSSE.

Central Depository of Securities of the Slovak Republic
In accordance with the Securities Act, the former Securities Centre was transformed into the Central Depository of Securities of the Slovak Republic (Central Depository). The Central Depository is a joint-stock company that registers book-entry securities in the issuer's registers, keeps the list of shareholders of named shares in paper form, registers book-entered securities holders and provides other services such as the assignment of securities identification numbers (ISIN), clearance and settlement of transactions, etc. Members of the Central Depository are entitled to operate some specific activities related to disposals and registrations of securities.

Securities in paper form, in contrast to book-entered securities, do not have to be recorded by the Central Depository. The only exceptions are named shares issued in the paper form, where the Central Depository maintains the list of shareholders. A record in the list is required for the effective transfer of shares in paper form.

The Bratislava Stock Exchange (Stock Exchange) currently owns 100% of the shares in the Central Securities.

Trading (obchodovateľnosť)

Book-entered securities can be traded on the public market organized by the stock exchange only if they meet all the requirements of the law and the stock exchange regulations. Each transaction processed through the stock exchange is registered with the Central Depository and/or its member, according to an order of the stock exchange.

Book-entered securities which are not accepted by the stock exchange for trading on the public market

can be traded outside the public market on a contractual basis. The registration of such shares with the Central Depository and/or its member is also required.

Trading of securities in paper form is generally carried out by the handing over of the security on the basis of an agreement or, if the securities are issued to order, on the basis of an endorsement. Registration with the Central Depository and/or its member is not required.

In Slovak law, securities are distinguished under the following criteria:

Type of securities (druh)

The Slovak Securities Act recognizes various types of securities. The most common are shares, interim certificates, share certificates, bonds, deposit certificates, investment coupons, vouchers, bills of exchange, cheques, etc.

Options and other derivatives are not considered as securities within the terms of the Slovak Securities Act but they may be traded under the existing legislation as rights arising from a specific contract.

Form (podoba)

Securities may be issued either in paper form (certificated) or as book-entry securities, which are registered with the Central Depository.

Shape (forma)

Securities can be issued as bearer securities, securities to order and securities to name (registered). Bearer shares, bonds, cooperative share certificates, treasuries, bearer share certificates of open funds and share certificates of closed funds may, however, be issued only in a book-entered form.

A security is deemed issued at the moment when it contains all the particulars defined by law and when it becomes the possession of its initial owner in a manner established by law. At the request of the issuer, the central depository assigns an ISIN (i.e. a numerical identification of a security) to a security without undue delay.

Restrictions

In accordance with the Securities Act, before any individual or legal entity can exceed the thresholds of 33%, 50% or 66% of all the voting rights attached to the listed shares of any one issuer, it is obliged to perform a public offering. The public offering is to be a public undertaking to buy all the listed shares of the particular issuer from all the other shareholders under conditions which must be published in the daily press.

In addition, an investor, whether foreign or Slovak, cannot exceed the thresholds of 5%, 10%, 20%, 33%, 50% or 66% of the registered capital or voting rights in a Slovak bank without the prior approval of the National Bank of Slovakia.

Foreign exchange controls and investment protection

Currency and exchange rates

The basic monetary unit is the Slovak crown (SKK).

To meet the requirements of the International Monetary Fund, the Slovak Republic enacted a Foreign Exchange Act, which took effect from 1 October 1995. In 2000, the Parliament passed an amendment to the Foreign Exchange Act liberalizing capital flow and foreign financial transactions relating to receiving and providing financial loans. In 2004 and 2006 the Parliament passed further important amendments to the Foreign Exchange Act in order to comply with EU legislation. The National Bank of Slovakia (NBS) is responsible for the monetary policy of the country.

Convertibility

There is limited or "internal" convertibility of the Slovak crown. With effect from 1 October 1998, the NBS cancelled the fluctuation spread of SKK and terminated the procedure of pegging the SKK to the DEM/USD basket. Consequently, the SKK exchange rate is not guaranteed by the NBS, but is determined by demand and supply on the market.

In general, more transactions are made in cash in the Slovak Republic than in western countries, but credit and debit cards are rapidly becoming widely accepted methods of payment, especially in cities. Payments by cheque are uncommon and it can take as long as several weeks to obtain money via a cheque from abroad.

Foreign loans

The requirement to request the approval of the National Bank of Slovakia for all types of foreign currency loans from abroad was cancelled with effect from 1 January 2001. Although the loans are not subject to approval, there is a requirement for them to be reported to the National Bank of Slovakia.

Repatriation of profits

The internal convertibility regulations provide for the free repatriation of profits generated by Slovak legal entities. Banks are obliged to sell to foreign investors foreign currency amounts reflecting the returns on their investments, including dividends, interest on loans, royalties and other fees paid for intellectual property.

International investment promotion and protection treaties have been signed with the following countries: Australia, Austria, Belarus, Belgium, Bulgaria, Canada, China, Croatia, Cuba, Denmark, Egypt, Finland, France, Germany, Greece, Hungary, Indonesia, Israel, Italy, Latvia, Luxembourg, Malta, the Netherlands, North Korea, Norway, Poland, Portugal, Romania, the Russian Federation, Slovenia, Spain, South Korea, Sweden, Switzerland, Tajikistan, Turkey, Turkmenistan, Ukraine, the United Kingdom of Great Britain and North Ireland, the United States, Uzbekistan and Yugoslavia.

Foreign exchange rates

The table below summarizes selected foreign exchange rates as at 30 April 2007:

Switzerland
CHF 1 SKK 20.472

Czech Republic
CZK 1 SKK 1.196

Great Britain
GBP 1 SKK 49.317

USA
USD 1 SKK 24.636

EMU
EUR 1 SKK 33.667

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Employment law

EU citizens are not required to obtain work permits or residence permits in order to work in the Slovak Republic. However, if an EU citizen intends to stay in the Slovak Republic permanently, he/she is obliged to register for temporary residency (please note that this procedure is not administratively demanding). On the other hand, non EU citizens (foreigners) intending to work in the Slovak Republic are usually required to obtain work permits (issued by a local labour authority) and residence permits (issued by the Foreign Police Department).

Slovak individuals may be employed by Slovak legal entities or branch offices without any restriction. All employees must be registered with the labour, social, health and tax authorities.

Wages

Employees of Slovak legal entities and foreign branch offices may only be paid in the Slovak currency for their work performed in the Slovak Republic. However, employees performing work abroad may also be paid in a foreign currency. Foreign employees are entitled to transfer their salaries paid in Slovak crowns to their bank accounts abroad. The minimum monthly wage is currently SKK 7,600.

Labour legislation

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

- Employees may be employed for an initial probationary period of a maximum of three months.
- The maximum working 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 number of overtime hours 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 leave is four weeks for employees with less than 15 years of work experience (including, e.g. time spent at university) and five, respectively eight (in the case of teachers) weeks in all other cases.
- Should either the employer or employee wish to terminate the employment contract, a minimum notice period of two months has to be given. If a person has been employed by the same company for at least five years, the minimum notice period is three months has to be given by the employer. The conditions under which an employer may terminate the employment contract are specifically defined in the Labour Code. An employment contract can be terminated immediately without notice with the assent of both the employer and employee. In addition, the employer can terminate the employment immediately if the employee is found guilty of a criminal offence or is found to be in serious breach of his/her obligations. Also, the employee may, in exceptional situations as stipulated by the Labour Code, terminate his/her employment immediately.
- The employer is obliged to discuss and/or notify certain situations with employees or employees' representatives - Trade Unions, Works Councils/Works Confidant, European Works Councils, etc.

A draft amendment to the Labour Code introducing several changes with respect

to employment regulation has been prepared by the Slovak Government and is currently discussed by the Slovak Parliament. If passed, it will become effective as of 1 September 2007.

Competition law

Unlawful restriction of competition

In accordance with Act No. 136/2001 Coll. on Protection of Economic Competition (Competition Act), the following activities of both legal entities and individuals are prohibited as being unlawful, or are subject to control by the Anti-Monopoly Office of the Slovak Republic (Office):

- Agreements restricting competition, e.g. agreements on prices, division of the market, limitation of production, etc.
- Abuse of dominant position in the market.
- Concentration. There are two types of market concentration: the merger or consolidation of two or more independent entities, and the acquisition of direct or indirect control by one or more entities over another entity. Concentrations that exceed the thresholds stipulated in the law are subject to a review and approval process which could take up to five months.

The law also specifies the role of the Office, its rights, and the activities it can perform in order to prevent or penalize 'anti-market' activities.

Concentration thresholds criteria

Under the Competition Act, only the following concentrations will require a respective notification to the Office where, for the last accounting period, either:

- the world total net turnover of all the undertakings concerned exceeded SKK 1.2 billion and, at the same time, at least two of the undertakings concerned each generated net turnover of at least SKK 360 million on the Slovak market; or
- the net turnover of at least one participant to the concentration on the territory of the Slovak Republic exceeds SKK 500 million and the world net turnover of at last one other participant to the concentration exceeds SKK 1,2 billion.

Concentration proceedings before the Office

In general, the concentration notification can be filed with the Office either prior to the signing of the respective concentration contracts or after their signing but always prior to the effectiveness of the relevant contract. Once the Office receives the notification, it will determine in 30 days, whether the concentration requires its approval or not. If yes, the Office will announce this fact to the participants of the concentration proceedings. The Office must issue its decision at the latest within 5 months after the commencement of the proceedings (excluding the time, when the participants submitted additional evidence based on the Office's petition).

Unfair competition

The Commercial Code provides competition rules in general. Unfair competition is prohibited. This is primarily understood as:

- deceptive advertising;
- deceptive descriptions of goods and services;
- conduct contributing to confusion of identity;
- parasitic exploitation of a competitor's reputation, products or services;

- bribery;
- disparagement;
- violation of trade secrets;
- endangering the health of consumers or the environment.

Real estate

Acquisition

Following the accession of the Slovak Republic to the European Union, non-residents (i.e. legal entities having their registered seat abroad, natural persons having their permanent residence abroad or branches of non-residents located in the Slovak Republic) may acquire real estate in the Slovak Republic, with the following exceptions:

- land outside a built-up area which is designated as agricultural or forest land; however, this restriction does not apply to non-residents who:

  a) inherit such land;

  b) are citizens of the Slovak Republic; or

  c) in the case of agricultural land, are EU citizens with temporary residence in the Slovak Republic and have farmed the land for at least three years following the accession of the Slovak Republic to the European Union;

- other real estate the acquisition of which is limited by a special regulation (e.g. Water Act, Mining Act).

Slovak legal entities, whether Slovak or foreign-owned, may freely acquire all real estate excluding the real estate owned exclusively by the state, such as mineral resources, caves, underground water, natural healing resources and watercourses.

Leasing

Slovak and foreign legal entities and individuals may lease real estate at prices determined by agreement among the parties.

Taxation

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Corporate income tax

Scope

Corporate income tax is levied on the worldwide income of Slovak legal entities (those having their seat or place of management in the Slovak republic) and on the Slovak source income of foreign entities, e.g. those operating through a permanent establishment in the Slovak Republic.

Permanent establishment

Under Slovak legislation, a permanent establishment means a fixed place or facility through which tax non-residents carry out their activities, fully or in part, in the Slovak Republic. In particular, a fixed place or a facility is defined as an administration point, branch, office, workshop, sales-point, technical facility or a point of research or of extraction of natural resources. The fixed place or the facility is considered to be permanent if the activities are carried out continuously or repeatedly. In the case of one-off activities, the place or facility is considered to be permanent if the duration of the activities exceeds six months, either continuously or divided into two or more periods in the course of twelve consecutive calendar months. A building site, construction or assembly works-site is considered to be a permanent establishment only if the duration of the activities exceeds a period of six months.

The term “permanent establishment” also includes a person acting on behalf of an entity having its registered office abroad or being resident abroad, and who negotiates or enters into agreements on behalf of such an entity on a continuous or repeat basis, under a power of attorney.

Rates

The corporate income tax rate is 19 %.

Partnerships

Profits and losses of general partnerships are allocated to partners, and partners are subject to personal income tax or corporate income tax on their share of the profits. Limited partnerships are generally within the scope of corporate tax, although profit shares attributable to general partners are removed from the partnership’s tax base and taxed separately at the level of the general partners.

Groups of companies

No group tax consolidation or participation exemption exists in Slovak tax legislation.

Tax base

Corporate tax is paid on the basis of statutory accounting profits, adjusted for certain non-deductible and non-taxable items.

Non-deductible items include, for example:

- entertainment and travel allowances in excess of the statutory limits;
- all penalties and fines, except for contractual penalties that have been paid;
- taxes paid on behalf of other taxpayers;
- write-offs of bad debts, unless specific conditions are met;
- reserves and provisions, except for specified reserves and provisions (special rules apply to banks and insurance companies).

Specifically, tax-deductible categories of expenditure include:

- expenses (costs) related to the provision of proper working, social and health-care conditions;
- advertising expenses incurred for the presentation of the business activities of a taxpayer, his goods, services, business name, trade mark and brand names;
- expenses (costs) of fuel consumed;

- tax depreciation;
- net book value of tangible and intangible assets on their disposal by way of sale or liquidation;
- net book value of tangible and intangible property disposed of due to damage, only up to the amount of the indemnities paid with respect to such damage included in the tax base;
- financial lease payments, under certain conditions;
- supplementary pension insurance contributions paid by the employer on behalf of the employee up to 6 % of the gross salary of the employee participating in these savings.

Certain expenses are tax deductible in the tax period in which they are paid. These are, for example:

- rental fees and commission fees paid to individuals;
- contractual penalties, default interest (unless charged by a bank) and default penalties.

Thin capitalization

Thin capitalization rules were abolished in Slovakia, with effect from 1 January 2004.

Depreciation

The Slovak Income Tax Act divides tangible assets into four categories, each of which specifies a period (ranging from 4 to 20 years) over which all assets in that category are to be depreciated.

Two tax depreciation methods are available: a straight-line method and an accelerated method. The choice of method is made on an asset-by-asset basis and, once made, cannot be changed.

Intangible assets (other than goodwill, which is not depreciated for tax purposes) are depreciated in accordance with accounting regulations, i.e. in general depending on their actual useful life. Exceptions are capitalized start-up costs and expenses for development which are to be depreciated within five years from the date of their acquisition.

Relief of Losses

A tax loss can be carried forward over a maximum of five consecutive tax periods following the tax period in which the tax loss was incurred.

The decision as to the proportion of the loss to be deducted from the tax base is left to the taxpayer. This applies even if the tax period is shorter than twelve months, e.g. if the company is liquidated or if the company changes its financial year.

Capital gains

Capital gains are subject to income tax of 19 %.

Dividends

Profits distributed to a person having a share in the registered capital of the company which distributes the dividends are not subject to tax in the Slovak Republic. Under certain conditions (e.g. a share in the registered capital of below 25% or residency outside of the EU) dividends distributed out of profits realized before 2004 may be subject to tax.

Interests and royalties

Income from interest and royalty payments fulfilling the conditions set by Council Directive No. 2003/49/EC are tax exempt according to Slovak legislation.

Personal income tax

Scope

Income subject to tax

Individuals with permanent residency in the Slovak Republic are considered to be Slovak residents for tax purposes. In addition, any individual physically present in the Slovak Republic for at least 183 days in any one calendar

year is also considered to be a Slovak resident for tax purposes. Tax residents are taxable in the Slovak Republic on their worldwide income.

Individuals not having permanent residency in Slovakia and those who stay in Slovakia for fewer than 183 days in the calendar year, and those individuals whose stay in Slovakia lasts for 183 or more days, but is exclusively for study purposes or for their health treatment, or who regularly commute to the Slovak Republic for employment purposes, are treated as non-residents, and taxed on their Slovak source income only.

Income from dependent activity

Income from dependent activity includes salaries, wages, bonuses and other compensation of a similar nature, irrespective of whatever title it is accorded, i.e. regular, irregular, non-recurring payments that are paid, credited, or otherwise granted. Income from dependent activity also includes e.g., fees paid to directors and partners of limited liability companies and to limited partners of limited partnerships for work performed, even if they are not obliged to follow orders given by another person, remuneration for discharging offices in bodies of legal entities, and income from a social fund.

Self-employment and business income

In general, income from business activities and professional services, less deductible expenses (or lump sum expenses), is considered to be taxable income. Partners of unlimited partnerships, and the general partners of limited partnerships who are Slovak tax non-residents, are taxable on their Slovak source business income only.

Investment income

Investment income, including interest income and payments made from supplementary pension insurance schemes, is subject to 19 % withholding tax. This, however, can be included in the annual tax base and the 19% withholding tax can be viewed as a tax prepayment on the final tax liability. The provisions of double tax treaties may provide relief from this tax.

For both residents and non-residents, dividends and other profits distribution, paid out from the company's taxed profit, does not represent taxable income.

Gains from sale of real estate

Gains deriving from the sale of property acquired for the purpose of resale or exchanges for profit are taxed as ordinary income. Gains realized from the sale of real or personal property not acquired for resale are exempt from income tax, unless the minimum required holding period has not been met. The minimum required holding period is two years or five years respectively, depending on whether or not the taxpayer registered his/her residency there. Business assets are, in general, not eligible for these exemptions.

Rules for expatriates

Slovak legislation states that non-residents who are employed by a foreign entity and paid from abroad, and who receive employment income for work performed in the Slovak Republic, are exempt from Slovak personal income tax, provided that the employment income is not recharged to Slovakia or performed in a permanent establishment, and that the expatriate was in Slovakia for fewer than 183 days in any 12-month period. The relevant double tax treaty may change the 12-month period to the calendar year. The above does not apply to income from independent activities (actors, sportsmen, etc).

Slovak tax legislation includes the "economic"

employer concept under which, under certain circumstances, individuals legally employed by non-Slovak entities may be regarded as the "economic" employees of a Slovak entity and taxed accordingly.

Slovak social insurance and health insurance

If required by law, both employer and employee are required to pay social security contributions. Slovak social security contributions comprise health, sickness, old-age, disability, unemployment, guarantee and accident insurances, and contributions to the reserve fund. The combined rate for the employee's contribution is 13.4 % of his assessment base, and the employer's contribution is 35.2 % of the employee's assessment base. The maximum monthly assessment base for all insurances (excluding accident insurance) is determined as the average wage in the Slovak economy multiplied by a coefficient specific for each insurance (1.5 for sickness and guarantee insurances and 3 for all other insurances excluding accident insurance). The minimum monthly assessment base for all insurances (except accident insurance) is linked to the minimum wage in Slovakia. The assessment base for accident insurance is not capped.

With effect from 1 May 2004, EU regulations on social security and health insurance became binding in Slovakia. Thus, these should be taken into account when determining the obligations of foreign individuals working within the territory of the Slovak Republic.

Deductions, exemptions

All taxpayers, including non-residents, are entitled to a personal allowance. The sum of this allowance is equal to the subsistence level multiplied by 19.2 (SKK 87,936 for 2005, SKK 90,816 for 2006). Taxpayers having permanent residency in the Slovak Republic may also claim spousal allowance or a part of it provided the spouse's income is lower than the spousal allowance. In addition, taxpayers with permanent residency are entitled to a tax bonus of SKK 5,000 per child in 2005, SKK 5,400 in 2006.

Both Slovak and any similar foreign mandatory social security contributions are tax deductible for Slovak tax purposes.

Returns and payments

In general, individuals who received income exceeding 50% of the personal allowance are obliged to file a tax return. There is an exception from this rule for individuals who received employment income and/or income subject to withholding tax only.

Tax returns must be filed by individuals who received:

- income from a foreign employer (no permanent establishment in Slovakia);
- foreign source income (with certain exemptions);
- in-kind compensation, if tax prepayments could not be withheld;
- income other than employment income;
- individuals who did not request their employer to perform the annual reconciliation of their income and tax withholdings.

Tax returns for each tax period must be filed within three months after the end of the relevant tax period (generally, 31 March). Extensions may be granted on a case-by-case basis up to a maximum of three months. If the taxpayer receives income from foreign sources, an extension may be granted for a period of up to six months.

Some taxpayers may also be required to pay, where applicable, monthly or quarterly tax prepayments based on their last tax liability.

Rate

Income tax is charged at the

19 % flat rate.

Value added tax (VAT)

Scope

The current VAT Act, based on the European Union Directives, came into effect on the date of the Slovak Republic's accession to the European Union, 1 May 2004.

VAT is charged on the supply of goods and services in the Slovak Republic, on the acquisition of goods from another EU member state (intra-Community acquisition of goods), on the acquisition of selected 'reverse charge' services from other EU member states or third countries, and on goods imported from third countries. Contributions in kind to a business or a cooperative are also regarded as taxable supplies, except for contributions of a business or a part of a business (a branch), which are, as a rule, beyond the scope of VAT.

Registration

Registration application must be filed by any domestic taxable person whose turnover in a maximal period of the preceding twelve consecutive calendar months exceeds or is equal to SKK 1,500,000 (approx. EUR 40,000). Should the person not achieve the registration threshold or not yet perform taxable supplies, voluntary registration is possible; however, the individual or the entity should be able to demonstrate that it will perform taxable supplies in the future.

The Slovak VAT Act makes it possible for foreign entities to become registered VAT payers in Slovakia without establishing a branch or subsidiary in Slovakia. A foreign entity is obliged to register for Slovak VAT purposes before it starts performing business activities in Slovakia (this applies to those activities which are subject to VAT in Slovakia). Please note that there is no registration threshold determined for foreign entities. Foreign entities are relieved from VAT registration if only specific types of activities are performed (typically those where the liability to pay tax is shifted to the customer).

A company or cooperative is also regarded as a VAT registered business if it acquires a business or its part (a branch) or if it is a legal successor to a VAT payer which has been wound-up without liquidation, with effect from the date of the acquisition of the business or its part or a date on which it became a legal successor.

Input VAT deduction

The VAT payer is entitled to exercise the right to deduct VAT incurred in respect of a purchase of goods and services if these (goods and/or services) are used for purposes of his business as a VAT payer, other than for VAT exempt supplies without entitlement to the VAT deduction.

During the VAT periods in the calendar (accounting) year, the coefficient calculated at the end of the previous year should be used (in specific cases the coefficient approved by the Tax Authority).

Input VAT is not deductible for the following:

- Purchase, lease or hire of passenger cars and accessories;
- Business entertainment and amusement;
- Returnable bottles (if supplied locally);
- Disbursement.

Rates

Two VAT rates currently apply to taxable supplies performed by the VAT payer – the standard rate at 19% and the reduced rate at 10%. The standard rate applies to most of supplies of goods or services. The reduced rate applies to some medicaments and health

instruments.

The following transactions are VAT exempt with an entitlement to recover the input VAT:

- Supply of goods to a taxpayer registered for VAT in another EU Member State;
- Export of goods (i.e. goods physically leaving the territory of the EU);
- International transportation of persons.

The VAT payer is entitled to a VAT deduction under the following circumstances:

- Performance of a service with a place of supply abroad, if he would be entitled to a VAT deduction, provided that the services would have had a place of supply in Slovakia;
- Exempt financial and insurance services performed for a customer from a third country.

The following taxable supplies are VAT exempt (with no entitlement to recover the input tax) according to Sections 28 - 42 of the VAT Act:

- Postal services (Article 28);
- Health care services (Article 29);
- Social welfare (Article 30);
- Education and training services (Article 31);
- Services provided to members (Article 32);
- Services connected with sport or physical education (Article 33);
- Cultural services (Article 34);
- Collection of financial funds used for their own activity by persons who meet the conditions stipulated in the law (Article 35);
- Radio and television broadcasting performed by a public body (Article 36);
- Insurance services (Article 37);
- Transfer and lease of real estate (Article 38);
- Financial services (Article 39);
- Sale of postage stamps, duty stamps (Article 40);
- Operating lotteries and similar games (Article 41);
- Sale of goods where VAT was not deductible upon their acquisition (Article 42).

VAT refund

In accordance with the Slovak VAT Act, it is possible for foreign businesses to recover VAT incurred in the Slovak Republic. The rules for VAT refund are based on the provisions of the 8th and 13th EU Directives, although certain contradictions exist within the EU law.

Intrastat

The INTRASTAT system became fully applicable in Slovakia from 1 May 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.

Customs duties

On 1 May 2004, customs duties on imports to Slovakia from EU countries were abolished, and the EU Common Customs Tariff was imposed.

Elimination of customs duty on imports from EU countries

Customs duties and quantitative restrictions are prohibited between EU member states. The physical border controls between the acceding countries were abolished on 1 May 2004. Only imports of non-Community goods (for example, direct imports from third countries) are subject to the rules on presentation to and

clearance by customs.

Goods imported from third countries into the Slovak Republic are subject to import customs duties, excise duties, VAT and other commercial policy measures (collectively referred to as customs debt) based on the Community Customs Tariff. Goods imported to or exported from the Slovak Republic can also be subject to import/export restrictions (i.e. import/export licenses, veterinary inspections). Goods imported and released into the Free Circulation customs procedure, which are sent to or acquired from other EU member states are no longer regarded as exported or imported.

Customs code

Customs law falls within the exclusive competence of the Community. Hence, the pre-Accession national customs legislation was replaced by Community customs law: the Community Customs Tariff Nomenclature, Community Customs Code and other Community customs regulations.

Accounting principles and requirements

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Accounting and record-keeping

The current accounting system, accounting principles and requirements have been in effect in the Slovak Republic since 1 January 1993. The system is broadly based on similar systems in the EU and the latest amendments bring this system closer to International Financial Reporting Standards ("IFRS").

The Act on Accounting was significantly amended with effect from 1 January 2003 and 2005, primarily in order to bring the Slovak system closer to IFRS.

Chart of accounts

A binding chart of accounts and accounting rules are prescribed by the Ministry of Finance.
Separate charts of accounts exist for the following types of business:

- Entrepreneurs (most businesses fall within this category);
- Banks and other financial institutions (pension and investment funds);
- Insurance companies;
- Municipalities and institutions that are financed by the state budget;
- Non-entrepreneurs (i.e. non-profit organizations, political parties, civic associations and other similar bodies).

The chart of accounts for entrepreneurs comprises the following categories:

Class	Description
0	Investment property including non-current assets, intangibles, constructions in progress, accumulated depreciation and financial investments
1	Inventory
2	Financial accounts
3	Debtors and creditors, other assets and short-term liabilities
4	Capital accounts including special funds and reserves, provisions, long-term borrowings and liabilities
5	Expenses
6	Revenues
7	Opening and closing off-balance sheet accounts
8 & 9	Internal management accounting

Slovak Accounting Law prescribes a three digit ledger account code (synthetic accounts) for each class of asset, liability, revenue and expense, and optional sub-ledger accounts (analytical accounts).

Entities are permitted to create other synthetic account codes for balance sheet accounts that are not prescribed in the chart of accounts.

Accounting principles and requirements

The Slovak Accounting Law, which is based on European Union directives, came into effect on 1 January 2003. However, recent amendments have mean that many IFRS provisions are already included in the law.

Slovak entities are required to maintain a full set of double-entry books in the Slovak language. Transactions must be recorded in the Slovak currency. Items originally denominated in a foreign currency, such as receivables and payables, shares and immovable assets held abroad, must be recorded in both the Slovak and the foreign currency.
With effect from 1 January 2005, there is no longer a specific requirement to prove that accounting was performed in the Slovak Republic.

Valuation

In general, non-current assets are recorded at cost. Tangible assets are shown either at cost or replacement cost and intangibles at the

lower of development cost or replacement value. Tangible assets are depreciated over their useful economic lives as determined by the entity. An entity must amortise goodwill, negative goodwill, incorporation costs and development costs within five years of their acquisition. Other intangibles should be amortised over their estimated useful economic lives.

From 1 January 2003, certain financial assets and derivatives should be carried at their fair market values. From 1 January 2005, assets and liabilities of merged companies should be revalued to fair market values.

Inventory is valued at the lower of cost or market value using one of the following methods: weighted average; first in, first out (FIFO); or specific identification. The last in, first out (LIFO) method is not permitted.

In accordance with the principle of prudence, provisions for diminution in value may be established where there is a risk that the asset's realizable value is less than the amount shown in the accounts. If the risk ceases to exist, the provisions may be reversed. Provisions are shown in a separate column in the balance sheet, so that both gross and net values are disclosed. If contingent liabilities arise, reserves should be established in account Class 4 (capital accounts).

Reconciliation and inventory count

Reconciliation of account balances and inventory counts must be performed at the balance sheet date. Measurement of the real quantity of fixed assets, intangibles, inventory and cash is performed by physical observation. For other assets and liabilities where physical observation is not possible, reconciliation to supporting documents is performed.

With effect from 1 January 2005, physical stocktaking of inventory can be performed at any time during the accounting period. Previously, it could only be performed during the final three months of the accounting period or in the first month of the next accounting period.

Stocktaking will substantiate the existence of inventory at the balance sheet date by using physical stocktaking data adjusted for movements of inventory in the period from the conclusion of the physical stocktaking to the end of the accounting period.
Cash must be counted at least four times a year. A fixed asset physical count is required only every other year. For debtors, creditors and other non-tangible assets and liabilities, a detailed listing by invoice is required.

All differences must be reflected in the accounts of the period to which the stocktaking relates. Surpluses and shortfalls can be offset only under specific circumstances if they relate to similar items. If not, they must be recorded separately.

Correction of prior periods

With effect from 1 January 2005, retained earnings are to be used to account for significant corrections to prior-period revenues and expenses and to assess the effect of changes in accounting policies. Changes in the valuation of assets and liabilities in accordance with the Act on Accounting and changes in accounting estimates (changes in useful lives of fixed assets, provisions for doubtful debts, inventory provisions, warranty provisions, etc.) continue to be recorded in the current-year income statement.

Financial statements and Audits

Financial reporting period

Entities may apply a 12-month financial reporting period other than the calendar year.

With effect from 1 January 2005, a company may apply to change its accounting period by submitting a written announcement to its relevant tax office at least 15 days before the date for the change of the accounting period. The change to the accounting period should be implemented by the end of the period.

Financial statements

The year-end financial statements consist of a balance sheet, profit and loss statement and notes to the financial statements including a cash-flow statement. The notes must contain detailed information to assess the entity's assets, liabilities, financial position and results. This includes accounting principles, valuation methods and depreciation rates used in the period. The balance sheet and income statement must be prepared on pre-formatted forms. Details of the content and disclosure requirements are specified by the Ministry of Finance.
From 1 January 2006, individual financial statements prepared by companies conforming to the criteria below should be prepared in accordance with the Financial Reporting Directives of the European Union - in accordance with IFRS.
Individual financial statements should be prepared in accordance with IFRS if the entity:

- is a company (a.s., s.r.o., v.o.s., k.s.) and if at least two of the following conditions were met in at least two consecutive accounting periods:
  a. the total value of assets before provisions exceeded SKK 5,000 million
  b. the net turnover exceeded SKK 5,000 million
  c. the average number of employees exceeded 2,000.

A company should continue to prepare financial statements in accordance with IFRS even when the conditions above are not met in subsequent accounting periods,

- is a bank, insurance company or other entity providing financial services;
- is required to prepare IFRS financial statements under special Government requirements or European Union legislation.

An entity must publish its financial statements and Annual Report by depositing them with the Commercial Register within 30 days of their approval. The financial statements may be deposited as a component of the Annual Report. The Annual Report should contain the financial statements, an auditors report, a summary description of operations, activities, and significant subsequent events, a summary of research and development costs, a forecast for the entity and other information specified by the Accounting Law.

Companies that prepare their individual financial statements in accordance with IFRS must publish their full financial statements and Annual Reports on the Internet and publish the Internet address in the Commercial Bulletin.
One copy of the financial statements should be submitted by the company to the relevant Tax Office together with the income tax return.

Audits

The Slovak Chamber of Auditors ("SKAU") adopted International Standards on Auditing with effect from 1 January 2004.

Under Slovak Accounting Law, the following entities are required to have their individual financial statements audited:

- All Slovak joint-stock companies;
- Certain organisations or bodies that are designated by taxpayers as beneficiaries of percentage donations of income tax if the annual amount of their tax donations received exceeds SKK 1 million.
- Business entities that are obliged to create initial capital, e.g. limited liability companies and cooperatives, if they met any two of the following size criteria in the year preceding that for which the financial statements are to be audited:

  a. The total value of the entity's assets exceeded SKK 20 million;
  b. 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;
  c. The average number of employees exceeded 20.
- All entities which are obliged to prepare their individual financial statements in accordance with IFRS (described below)
- Other entities, if other laws require them to be audited.

The audit of the financial statements must be performed by the end of the financial reporting period following the period for which the financial statements or annual report were prepared, unless stated otherwise.

Consolidated financial statements

From 1 January 2005, all consolidated financial statements should be prepared in accordance with the Financial Reporting Directives of the European Union and in accordance with International Financial Reporting Standards.

If a company is owned by a parent company in the European Union (100% ownership, or at least 90% ownership and an agreement with other owners), the company does not have an obligation to prepare consolidated financial statements and issue an Annual Report on the consolidated financial statements if:

- the company and all its subsidiaries are included in the consolidated financial statements prepared by its parent company in line with European legislation,
- the consolidated financial statements prepared by its parent company are audited and published in line with European legislation; and
- the company discloses in its Notes to the individual financial statements the name and address of its parent company which prepares the consolidated financial statements and information that the company itself did not prepare consolidated financial statements.

If a company prepares its individual financial statements in accordance with IFRS, the previous paragraph does not apply, and the company must prepare consolidated IFRS statements.

A company is not required to prepare consolidated financial statements if the aggregate data contained in the most recent individual financial statements of the entities representing the consolidated entity in each of the two preceding accounting periods fulfilled at least two of the following conditions:

- the total asset value of the aggregated entity was less than SKK 350 million,
- the net turnover of the aggregated entity was

less than SKK 700 million,
- the average number of employees of the aggregated entities in the accounting period did not exceed 250.

Consolidated financial statements must also be audited.. If a company has an obligation to prepare Annual Reports on both individual and consolidated financial statements, these may be combined in one Annual Report.

Archiving of accounting documentation

Annual reports and financial statements must be archived for a period of ten years. Accounting documents and books must be archived for a period of five years after the end of an accounting period and accounting documents which describe the method and forms of accountancy for a period of five years after the final year of application. In addition, all documentation which may be used for example, for payroll, tax or criminal proceedings, must be retained for a period that fulfils the requirements of other laws regulating such proceedings.

Fines and penalties

Certain specified breaches of the Act on Accounting may result in fines and penalties of up to 3% of total gross assets. All other breaches of the Act on Accounting may attract penalties of up to 1% of total gross assets. If it is not possible to assess the value of total gross assets, the total penalty can be up to SKK 100 million.

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