

Taxation of Individuals

Incl. social and health insurance
contributions

VGD



knowledge partner
of private companies

Bart Waterloos

Table of contents

- Taxation of individuals:
 - ✓ Overview
 - ✓ Determining the tax base
 - ✓ Different types of income
 - ✓ Technical issues
- Health insurance
 - ✓ Range of insured
 - ✓ Calculation base
 - ✓ Other issues
- Social insurance
- Examples
- Questions and Answers
- About VGD-Avos

Taxation of individuals

Overview

- Subject to personal income tax are the following types of income:
 - ✓ Employment income
 - ✓ Entrepreneurial and rental income
 - ✓ Investment income
 - ✓ Other income
- Tax statement is due by 31 March, but the deadline can be extended with 3 to 6 months by sending an announcement to the tax office.
- Flat tax of 19% remained unchanged
- Dividend income from profits arising as from 2004 is not subject (or exempt) to Slovak tax (but see later for social and health insurance changes)

Taxation of individuals

Determining the Tax Base

- Calculation of the tax free amount has changed:
 - ✓ It moved back to 19,2 times the life-minimum valid per 1st of January of the year ($19,2 \times 185,38 \text{ €} = 3.559,3 \text{ €}$)
 - ✓ Compared to 4.025,7 € for the years 2009 and 2010
- Limitations to the tax free amount:
 - ✓ Tax payer can claim the entire tax free amount only if the yearly taxable base is less than 100 times the life-minimum (i.e. less than 18.538 €; compared to 15.387 € for the years 2009 and 2010)
 - ✓ Usually managers and expats are above this limit and can thus not enjoy the tax free amount at all (yearly taxable base is above 32.775,2 €, or 2.719 € monthly)

Taxation of individuals

Determining the Tax Base

- Tax free amount limited to 'active income', i.e.:
 - ✓ Employment income
 - ✓ Entrepreneurial or other income from self-employment
 - ✓ So no longer applicable on e.g. rental income
- No additional tax free allowance (used to be 398,33 €) for contributions paid to:
 - ✓ Additional pension savings (3rd pillar)
 - ✓ Life insurance
 - ✓ Specific saving schemes

Taxation of individuals

Employment income

- Tax base consists of:
 - ✓ Gross salary
 - ✓ Director's fees
 - ✓ Bonusses
 - ✓ Housing and other allowances
 - ✓ In-kind benefits
 - ✓ Company car (1%)

Taxation of individuals

Employment income

● Travel allowances:

- ✓ Basic travel allowance still tax free
- ✓ However, no obligation anymore for pocket money
- ✓ Pocket money for foreign business trips ranging now from 0% to 40%
- ✓ Pocket money fully taxable + subject to social and health insurance contributions

● Medical staff:

- ✓ No longer possibility to claim costs for further education to lower their tax base

Taxation of individuals

Employment income - example

- Travel allowances practical example:
 - ✓ Driver with a gross salary of 500 €, being 20 days a month in Germany (daily allowance of 45 € and 20% pocket money)

- Before the change
 - ✓ 1.080 € travel allowance as net income extra
 - ✓ Total cost for the company of 1.755,90 €

- After the change
 - ✓ Only 1.018,90 € travel allowance
 - ✓ Total cost for the company increases to 1.819,30 €

Taxation of individuals

Entrepreneurial income

- Taxable income:
 - ✓ Income from small business
 - ✓ Independent profit-making activities (self-employed)
 - ✓ Rent of real estate
- Unified lump-sum expenses of 40% can be claimed (before also 60% for income from artisanal activities)
- Otherwise proof real expenses (but once choice is made, no switch possible anymore for the given tax period)
- Pocket money no longer tax deductible cost
- Tax-free amount of 500 € for rental income

Taxation of individuals

Investment income

- Taxable income:
 - ✓ Interests
 - ✓ Winnings
 - ✓ Yields from additional pension and life insurance
- Mostly there is a withholding tax, whereby this withholding tax is now considered final in many occasions

Taxation of individuals

Other income

● Taxable income:

- ✓ Income from occasional activity
- ✓ Income from the sale of real estate
- ✓ Transfer of securities, options, shares

● Sale of real estate:

- ✓ Exempt only after 5 years for real estate acquired after 01.01.2011
- ✓ No effect anymore of the permanent address

● Tax free amount now fixed at 500 €:

- ✓ Securities, shares, ... acquired before 01.01.2011 still 925,95 € as overall maximum

Taxation of individuals

Allocation of tax to charity

- For individuals:
 - ✓ 2% still possible
 - ✓ Unlike legal entities, no conditions and no gifts

Taxation of individuals

Technical issues

- Tax-free income extended with:
 - ✓ Alimentation money from abroad
 - ✓ Compensations for extra-ordinary situations paid from the state budget
 - ✓ Remunerations paid to persons acting in favor of the Police

- Withholding tax and tax advances:
 - ✓ Cancelled the withholding tax for all employees

Taxation of individuals

Technical issues

- Income of non-residents sourced in Slovakia clarification:
 - ✓ Interests on Slovak state bonds: no tax
 - ✓ Rent of a motor vehicle: taxable in SK
 - ✓ Income from rent and sale of real estate: taxable in SK
 - ✓ But always check the double tax treaties

Health insurance

Changes in the range of insured

- Employees:
 - ✓ All physical persons who's income is taxed as employment income (cfr. Tax law)
- Employers
 - ✓ Anyone paying income to an employee, also foreign entities
- Entrepreneurial sole traders
 - ✓ This category will include persons with income from rent

Health insurance

Changes in the range of insured

- Person who is paid out a profit share (dividends)
 - ✓ 10% contribution is due by the individual receiving the profit shares
 - ✓ on the amount exceeding the monthly minimum calculation base
 - ✓ Applicable on profits generated for accounting periods starting after 1 January 2011
 - ✓ Includes also the liquidation balance
 - ✓ No obligation for company paying out the dividends
 - ✓ Combine with overall maximum annual calculation base
- Recipients of capital income

Health insurance

Changes in the calculation base

- Unification with tax base for employees:
- As such a wider range now included, e.g.:
 - ✓ Severance pay
 - ✓ Personal use of a company car
 - ✓ Employee options from the employer
 - ✓ Contributions from the social fund
 - ✓ Jubilee remuneration
 - ✓ Pocket money on foreign business trips
 - ✓ Energy Tickets
 - ✓ Dividends
 - ✓ Contributions of the employer to additional pension savings
- If exempt from tax, no contributions (unless dividends)

Health insurance

Other issues

- Calculation base for self-employed remains the same
 - ✓ i.e. tax base and coefficient 2,14
 - ✓ Premium rate is 14%
- The maximum annual calculation base remains at 3 times the average monthly salary from 2 years before
 - ✓ So currently 2.233,50 €
 - ✓ Proposal was to increase to 5 times (would have meant 3.722,50 €)

Health insurance

Other issues

- Only one type of registration for both employee and employer
- Deadline for registration: 31 January 2011
- Think of the EU-regulation
- Some categories are now exempt from the yearly reconciliation
- Pro rata annual calculation base
 - ✓ if similar insured abroad for the preceding period

Social insurance

Changes in the range of insured

● Employees:

- ✓ All physical persons who's income is taxed as employment income (cfr. Tax law)

● Therefor this now includes:

- ✓ Partners and Executives from a limited liability company
- ✓ Members of the Board of Directors, Supervisory Board, Controlling Board
- ✓ Members of a Co-operative

● Excludes:

- ✓ Persons working on an agreement to work or the performance of an activity and student contracts

Social insurance

Changes in the calculation base

- Unification with tax base for employees:
- As such a wider range now included, e.g.:
 - ✓ Severance pay
 - ✓ Personal use of a company car
 - ✓ Employee options from the employer
 - ✓ Contributions from the social fund
 - ✓ Jubilee remuneration
 - ✓ Pocket money on foreign business trips
 - ✓ Energy Tickets
 - ✓ Dividends

Social insurance

Changes in the calculation base

- Are still excluded, e.g.:
 - ✓ Income exempt from tax (apart from dividends)
 - ✓ Mealticket contribution
 - ✓ Additional pension saving contribution by the employer (but not for health insurance)

Social insurance

Applicable categories of insurance

- No longer linked to the type of contract :
 - ✓ Employment contract vrs. Mandate contract
- But depending now on the intended periodicity of the remuneration:
 - ✓ Regular vrs. non-regular income
 - ✓ Law indicates only: non-regular income is paid out on another than a monthly basis

Social insurance

Applicable categories of insurance

e.g. Executive of a limited liability company

	Regular	vrs.	non-regular income
Sickness	✓ yes		
Pension	✓ yes		✓ yes
Invalidity	✓ yes		✓ Yes
Unemployment	✓ yes		
Accident			
Guarantee fund			
Reserve fund	✓ yes		✓ yes

Social insurance

Other issues

- Registration is required for each type of income:
 - ✓ Partner - Executive with an employment contract and mandate contract and obtaining dividends :
 - ✓ Will need 3 (!) times registration
- Moreover, for the company there will be 4 times a maximum!
- Think of the EU-Regulation
- Deadline for registration: 31 January 2011
- Method for setting the maximum calculation base remains unchanged
- Actualization from now on per 1 January

Social insurance

Other issues

- Even though there is no annual reconciliation,
 - ✓ Premium calculation for non-regular income will require allocation over earlier months when this non-regular income was not paid out
 - ✓ So e.g. Executive bonus paid out in August of 8.000 € will be subject to premiums for 8 months, and each month will be below the maximum calculation base
- Big debate ongoing about the dividends
 - ✓ Amendmends to the law expected

Examples

Severance pay

- Severance practical example:
 - ✓ Employee with more than 5 years working history, average monthly gross salary of 1.500 €
- Until 31 December 2010
 - ✓ Net income would be 4.701,56 € in month of pay-out
- As from 1 January 2011
 - ✓ Net income decreases to 4.581,82 €
 - ✓ Loss of 119,74 €
 - ✓ And then we don't even take into account the yearly reconciliation for health insurance (could mean another 120 €)

Examples

Dividend pay-out

- Dividend pay-out:
 - ✓ Dividend pay-out in December of 60.000 € to the partner of a limited liability company, who is also having a regular monthly salary of 500 €
- Until 31 December 2010
 - ✓ Net income from dividend would be 60.000 €
- As from 1 January 2011
 - ✓ Additional health insurance contributions of 2.080,20 €
 - ✓ Additional social insurance contributions of 2.482,44 €
 - ✓ Net income from dividend only 55.437,37 €

Examples

Alternatives for remuneration of executives

1. Regular employment contract	2010	2011
Monthly income	5.000 €	5.000 €
Social and health contributions	340,46 €	343,04 €
Net income after tax yearly	45.290,76 €	45.265,68 €
2. Mandate contract – regular payment	2010	2011
Monthly income	5.000 €	5.000 €
Social and health contributions	86,76 €	343,04 €
Net income after tax	47.756,69 €	45.265,65 €
3. Mandate contract – one payment	2010	2011
December income	60.000 €	60.000 €
Social and health contributions	1.041,12 €	1.280,54 €
Net income after tax	47.756,69 €	47.562,76 €

Social and health insurance

Overview premiums

Insurance	Maximum calculation base	% employee	% employer
Health Insurance	2.233,50 €	4%	10%
Sickness	1.116,75 €	1,4%	1,4%
Pension	2.978,00 €	4%	14%
Invalidity	2.978,00 €	3%	3%
Unemployment	2.978,00 €	1%	1%
Accident	No max.	-	0,8%
Guarantee fund	1.116,75 €	-	0,25%
Reserve fund	2.978,00 €	-	4,75%
		13,4%	35,20%



Questions & Answers

The VGD group

- A professional organization of auditors, accountants, payroll, tax consultants, legal and deal advisors;
- 30 Partners, 500 Staff, 30 offices
- Present in 9 Mid-European countries
- Started in 1981, constantly growing;
- Offering high quality services and integrated solutions in the Mid-European region.
- Member of Nexia International



VGD AVOS Slovakia

- Operational since January 2001 in Bratislava
- Rapidly expanding and growing
- January 2011 merger with AVOS from Piestany
- Focus on international clients and larger local SME's
- More than 45 staff members in accounting, tax, audit and payroll administration
- Foreign languages spoken: English, Dutch, German and French

VGD AVOS office locations

THE SLOVAK REPUBLIC

Bratislava
Rigeleho 1
811 02 Bratislava
tel: +421 2 5541 0624
fax: +421 2 5541 0631
vgd.bratislava@vgd.eu
www.vgd.eu

Piešťany
Námestie SNP 1476/4,
921 01 Piešťany
tel: +421 033 7767 321
Tel: +421 033 7743 895
vgd.piestany@vgd.eu
www.vgd.eu

OTHER COUNTRIES

Czech Republic Praha, Liberec, Olomouc

Belgium Brussels, Beringen, Gent, Willebroek-Blaasveld, Hamme, Antwerpen, Kortrijk, Machelen, Dendermonde

Bulgaria Sofia

Germany Düsseldorf, Leipzig, Essen

Luxembourg Luxembourg

The Netherlands Tilburg, Oisterwijk

Hungary Budapest

Poland Warszawa



**Thank you for
your attention**