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Slovak Parliament approves 2015 tax amendments

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On 30 October 2014, the Slovak Parliament approved the proposed amendment to the Slovak Income Tax Act to be effective as of 1 January 2015.

This Alert summarizes the most relevant changes with respect to direct taxes.

Thin capitalization rules

The rules introduce a limitation of tax deductible interest from loans provided by local and foreign related parties to 25% of EBITDA (earnings before interest, taxes, depreciation and amortization). No carry-over is allowed under the proposed amendment. While these rules should not apply to financial institutions, leasing companies and entities administrating collective investment schemes, no grandfathering would apply to the existing loans.

Local transfer pricing rules

The transfer pricing rules, currently applicable to transactions between foreign related parties only, were extended and should be equally applicable to domestic related party transactions.

"Super deduction" of R&D costs

In order to support entities performing research and development (R&D), new allowances were implemented in the amount of:

- 25% of real costs incurred for R&D
- 25% of wage costs of newly-hired graduates, deductible in the year when the graduates are hired
- 25% of the year-on-year increase of costs incurred for R&D

Additional changes in tax loss carry-forward rules

In accordance with the new rules for the utilization of tax losses under the amendment, tax losses generated during periods after 1 January 2014 could be included in the tax base pro-ratably over four years. If in one of the four years, the taxpayer does not generate taxable profit, the respective proportion of the tax loss being carried forward will be lost for further utilization.

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