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## Changes in Income Tax, VAT and health insurance

### Changes in Income Tax Act of 1 January 2023

#### New exempt income – exempt income for supported rented accommodation

There is a new exempt income from dependent activity - employer's contribution for rented accommodation supported by state according to Art 152c of Labour Code, up to the amount of 360 EUR per calendar month. The income is not tax exempt if the employer provided other non-monetary support for accommodation defined in the Income Tax Act or if the taxable wage is replaced by the contribution to rented accommodation supported by state. Contribution is a tax deductible expense for the employer, up to the limit stated in Labour Code.

#### New type of income – income from European personal pension product

There is a new income under Art 7 of the Income Tax Act – European personal pension product which is based on the new Act no. 129/2022 Coll. on European Personal Pension Product. The contributions represent non-taxable item for the individual in provable amount whereas they can be deducted together with contributions for supplementary pension savings up to the amount of 180 EUR per year. Income from this product is subject to withholding tax. The tax base is formed by the income decreased by contributions.

#### Tax bonus

The minimum amount of income from dependent activity or business as a condition for eligibility to tax bonus is cancelled. A new amount of tax bonus was approved: 100 EUR for a child up to the age of 15 years and 50 EUR for a child from 15 years. (There is already another amendment in the Parliament which plans to change the amounts to 140 EUR for a child up to 18 years and to 50 EUR for a child from 18 years with planned effect from 1 January 2023.)

The amendment stipulates the limit for tax bonus based on the amount of tax base from dependent activity and business activity.

1 child – 20% of partial tax base

2 children – 27% of partial tax base  
3 children – 34 % of partial tax base  
4 children – 41% of partial tax base  
5 children – 48% of partial tax base  
6 and more children – 55% of partial tax base  
New conditions for tax bonus will first apply in January 2023.

### Amendment to the Income Tax Act to be effective of 1 January 2023, in the approval proceedings

The amendment plans to extend the definition of related persons. Close persons will be considered as economically related if their total shares is at the minimum of 25% altogether.

Definition of significant controlled transaction should be added for the purpose of transfer pricing. Such transaction should be represented by a legal relationship or other similar relationship based on which in the tax period one or more related taxable persons declare taxable income or tax deductible expense higher than 10,000 EUR. The significant controlled transaction will be also represented by a loan with the capital over 50,000 EUR.

The amended Act should involve the reference to OECD Transfer Pricing Guidelines.

The amendment plans to determine the value which will be used by the tax authorities when considering independent price in transactions with related entities. If the value applied by the taxpayer is not in line with the arm's length principle, Median will be used during tax audit. If the taxpayer proves that after consideration of all circumstances other value within range than median is appropriate, the tax base will be adjusted according to this value.

A new limitation of interest expenses is planned from 1 January 2024. We state below comparison with the existing thin capitalization rules.

The new rules will state that net interest expense over 3 mil. EUR will be limited tax expense. Limit

should relate to all loans. The criteria should be tax EBITDA (30%).

Current thin cap rules limit gross interest expense, they relate to loans with related entities and the criteria is accounting EBITDA (25%).

Both above rules will probably exist.

### Changes in the VAT Act

As of 1 January 2023 the second decreased VAT rate at the level of 5% will be introduced and this will relate to the supply of building or part of building including building land on which a building or part of building exists (including reconstruction), which meets the conditions of rented accommodation supported by state within social policy of the state whereas the recipient of fulfilment is the lender of the flat who has a contract about running apartment house with state support in which the building exists, with the exemption of supply (reconstruction) of non-residential premises.

### Change in health insurance

As of 2023 introduction of the minimum base for health insurance contribution for employees is planned. Originally, it was planned that minimum base would be at the level of minimum wage which would be disadvantageous for many employees. Currently the minimum living wage is considered as an option. We will monitor changes in this area.

### Tax audits

Financial authorities carry out extensive tax audits in manufacturing companies which declare losses on a long-term basis. Mainly the companies which produce for related entities are in risk. The prices should reflect functions performed, assets involved and risks assumed. If this is not the case, the tax authorities will levy additional tax as well as penalty.

If you have any questions please contact us.

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