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In the last issue of our Newsfilter, we have reported also on the main topics and phases of the planned tax reform, the aim of which is to decrease the tax and social security burden on employment and to increase the taxes on property and consumption. After Igor Matovič was appointed the new Finance Minister, surprising and unexpected proposals for changes in the field of taxes and family policy have leaked to the public, which, admittedly, correspond to the aim of the tax reform, but have not been presented before. According to the information available to us, out of the original framework of the Smart Tax Reform, the more generous carryforward of tax losses has the biggest chance to be approved. Once the particular proposals and documents are published, we will inform you in more detail.

The founding partner of our company Renáta Bláhová has decided to apply her professional skills and extensive years of experience in audit and finance to help the healthcare sector. In May 2021 she took over the crisis management of the Health Care Surveillance Authority and became its chairwoman. For information on what has led to this change and what her motivation is read the interview in Denník N. This change has brought new chances for our whole team: since 22/05/2021, BMB Partners has two new managing directors – Katarína Hoppe and Petra Packová. We warmly congratulate both colleagues on their promotion and wish them every success in their work.

In this issue of our Newsfilter we bring information on numerous newly adopted measures and enhancements by the financial administration (TOP1), planned e-invoices (TOP2), planned changes to the Accounting Act (TOP3), latest developments in short-work measures (Kurzarbeit) and first aid (TOP4), we compare meal vouchers to the financial contribution to meals (TOP 5) and we also report on the latest and most interesting news from the field of international taxes (TOP 6 – TOP 10), in particular on the landmark G7 agreement on the minimum global corporate tax and on no less ground-breaking plans of the European Commission in the field of corporate taxation.

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TOP 1: NEW MEASURES IN FAVOUR OF TAXPAYERS

As part of the steps to improve the quality of the services for taxpayers (the first phase of Smart Tax), it is planned to reduce the fees **for binding opinions**. The previous "price list" ranging from 1 % to 3 % of the amount of the anticipated business case value rather discouraged taxpayers. After the approval of the amendment to the Tax Procedure Code, the fee for a binding opinion should be 1,000 EUR, for highly reliable entities only half of this amount, i.e. 500 EUR.
However, the scope of areas to be covered by financial administration is still questionable. Currently, these areas are limited to selected provisions of the Income Tax Act and the VAT Act. They do not include the interpretation of double taxation treaties at all. There has been a discussion on broadening the scope and the issue is still open.

In April 2021, financial administration introduced the option for taxpayers to view their personal account balance with the financial administration. The service is free of charge and is available online for all taxpayers with an active electronic mailbox on the portal of the financial administration. This concerns a total of approx. 750 thousand taxpayers. Thanks to this measure, the taxpayer has an overview of his/her personal account balance. In the future, the tax administration plans to further improve the service with a click-through to internet banking and QR code retrieval. Both changes, **including two-way communication with the tax administration**, should be implemented by the end of 2021.
In May, the financial administration updated its assessment of taxpayers by the Tax Reliability Index. New reliable entities have received a rating and notification that they are eligible for numerous benefits. The rating of taxpayers is normally carried out in January, but this year the tax administration postponed it due to the COVID-19 pandemic, as the deadlines for filing tax returns, statements and reports were postponed last year and the monitoring of arrears was suspended due to the pandemic.

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TOP 2: PLANNED INTRODUCTION OF E-INVOICES AND FURTHER MEASURES TO IMPROVE TAX COLLECTION

Slovakia plans to introduce e-invoices from 2023. This measure is expected to ensure a significant reduction of the VAT gap as well as improved payment of income taxes. The technical basis should be the already existing platform for e-invoicing of supplies to the public sector (B2G).

In February 2021, the Ministry of Finance launched a public comment process and is currently working on the law as well as on a technical solution. It is no secret that Hungary was a big inspiration, having launched such a system in several stages from July 2018 to January 2021.

Once the system is in place, all businesses should send invoice data to the financial administration when issuing invoices. As part of this process, each invoice will receive a code that will become part of the invoice. The recipient of the invoice will use this code to verify the invoice received in the financial administration system. In addition to abolishing the inland recapitulative statements, the Ministry also promises the option to use the system for electronic delivery of invoices, which may be of particular interest to smaller businesses.

The scope of transactions or entities is also being discussed. The Ministry is planning a country-wide introduction for B2B (business-to-business) as well as B2C (business-to-consumer) supplies. The criteria for inclusion of an invoice/transaction in the system will be both its issuance under a domestic VAT number and its income tax status (taxable income, tax expense). **A trial launch of the system** is planned for the beginning of 2022, **from 01/01/2023** it will be mandatory.

The amendment to the VAT Act, currently in the interdisciplinary comment procedure, introduces another measure in the field of combating tax evasion. It is a new obligation for VAT-registered entities to **notify the Financial Directorate of all their bank accounts** (including foreign ones) used for business purposes. The Financial Directorate will publish an updated list of bank accounts on its website. At the same time, the liability for tax will be extended to cover cases when the consideration for the supply or part of it was paid into an account which was not published on the list on the payment date.

A new institution, the **European Public Prosecutor's Office**, has been in place since 01/06/2021. The Slovak Republic has its own representative, a prosecutor with five delegated prosecutors. This office will mainly deal with fraud involving EU funds, but it also has jurisdiction over cross-border VAT fraud and carousel fraud where the damage caused exceeds EUR 10 million. Slovakia has so far delegated 10 cases to the European Public Prosecutor's Office.

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TOP 3: THE AMENDMENT TO THE ACCOUNTING ACT BRINGS NEW SIMPLIFICATIONS INCLUDING DIGITALIZATION

At the time of publishing our Newsfilter, interdisciplinary comments on the proposed **Amendment to the Accounting Act** No. 431/2002 Coll., which should **come into effect on 01/01/2022**, are being evaluated.

The proposal includes the long-awaited provisions on paper and electronic form of an accounting record and **stipulates acceptable ways of accounting record transformation into electronic form. Besides the secured conversion, it will be possible to use also scanning,** which is a considerable simplification for businesses that support digitalization.

When transforming the accounting record, the entity will still have to ensure the authenticity of the origin, completeness, integrity of the content, visual consistency and legibility of the accounting record. The authenticity of the origin of an accounting record and the integrity of its content can be ensured by an entity through an effective internal control system for accounting records.

The law will also make it **unnecessary to keep accounting records in paper form** if they have been transformed into electronic form in the prescribed manner.

If an accounting record is also a registry record, the entity is still obliged to comply with the provisions of the Act on Archives and Registers, which divides the originators of the registry into three categories and each category has different obligations related to the preservation of registry records and making of electronic copies of them.

The possibilities are also being expanded in relation to the signature record, which means, in addition to a handwritten signature or a qualified electronic signature, any **electronic signature that allows the demonstrable identification of a person**.

The amendment contains a **section relating to companies "in crisis".** The Commercial Code states that a company in crisis **may not repay money replacing own funds** and its accounts may not include transactions that meet the ban on repayment of money replacing own funds. **If the entity accounts for these facts, it will violate the terms of the Commercial Code and of the Accounting Act.**

It is also proposed to extend the **possibility of taking stock of inventories to the month following the balance sheet date**, similarly as allowed with other tangible assets.

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The draft law also **plans to extend the public part of the Register of Financial Statements to cover other legal forms of legal entities**, which would include all legal entities into the public part of the Register. These are mainly land communities but also **non-governmental non-profit organisations such as civic associations**, associations of owners of flats and non-residential premises, interest associations of legal entities and others. Individuals - entrepreneurs and branch offices of foreign persons would remain in the non-public part of the register.

Another proposed change concerns the depositing of documents in the register of financial statements: after 1 January 2021, all entities will have to **deposit, in the register of financial statements**, all accounting documents for the 2021 accounting period or also for previous accounting periods **only in electronic form**.

The amendment also plans to **define the requirements of the annual report for non-profit organisations** which do not have the contents of the annual report defined by material law (this applies in particular to civic associations, religious organisations which have to be audited).

TOP 4: APPROVAL OF KURZARBEIT AND THE LATEST FIRST AID UPDATE

Slovakia now counts to the countries which have enacted legislation on the permanent **Kurzarbeit scheme (short-work scheme)**. In May 2021, the Parliament approved the corresponding law, without the need to create the originally envisaged new insurance fund. The importance of this measure lies mainly in its **legally claimable support**, which will have to be used for the payment of wage compensation to employees in the period when the employer is not be able to assign work to its employees due to external factors.

The entitlement for the support will originate when the activities of the employer are limited to such extent that it is unable to assign work to at least **one third of employees in the extent of at least 10 % of prescribed weekly working hours**.

The financial support for employers will consist of the contribution to partial refund of employee wage costs for each hour of obstacles to work on the part of employer during short-term work scheme **in the amount of 60 % average hourly wages of the employee.**

The support from the Kurzarbeit scheme will be granted by the state for a maximum of six months during **24 consecutive months**. The government will have the option to introduce a longer period of support through a decree. The employer will have to keep the employee for whom it receives state support for at least **two months after the lapse of support period.**

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During the Kurzarbeit period, the employer will be obliged to pay to the employee wage compensation of at least 80 % of his/her average earnings.

The Kurzarbeit support will be exempt from taxation both for the employer and the employee.

This scheme is applicable exclusively by employers and is not available to individuals - entrepreneurs.

Connection between the First Aid and COVID Automat since 01/01/2021

The Labour Ministry has extended the period of first aid provision to employers and self-employed persons until the end of 2021, when the permanent Kurzarbeit scheme becomes applicable. Further, the amount of the aid to be paid from the scheme will depend on the Covid Automat as specified below.

First Aid 01/07/2021 – 31/12/2021 depending on COVID Automat				
First Aid Measure	Phase 3 (III. and IV. warning level)	Phase 2 (II. and I. warning level)	Phase (II. and I. alert level)	Phase 0
	First Aid ++	First Aid +	First Aid	
Measure 1	100 % CCP, max. EUR 1,100 (or 80 % CCP if state aid limit is exceeded)	80 % CCP, max. 1100 EUR	80 % CCP, max. EUR 880/1,100 (KZ)	No aid granted
Measure 2	EUR 330 – 870 depending on turnover decrease	EUR 270 – 810 depending on turnover decrease	EUR 180 – 540 depending on turnover decrease	
Measure 3A	100 % CCP, max. EUR 1,100 (or 80 % CCP if state aid limit is exceeded)	80 % CCP, max. EUR 1,100	80 % CCP, max. EUR 880	
Measure 3B	EUR 330 – 870 depending on turnover decrease	No aid granted	No aid granted	
Measure 4A/4B	EUR 360	EUR 315	EUR 210	

CCP = total labour cost KZ – collective agreement

TOP 5: FINANCIAL CONTRIBUTION VS. MEAL VOUCHER FROM TAX AND SOCIAL SECURITY PERSPECTIVE

The Amendment to the Labour Code which came into effect on 01/04/2021 introduced an option for employees to decide whether they want to receive meal vouchers or direct financial contribution to meals. According to the methodological guidance of the Finance Ministry, financial contribution has some disadvantages when compared to the meal voucher, as the financial contribution exceeding the limit set by the Labour Code is subject to both tax and social security contributions of employees unless provided from the social fund of the employer.

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Currently, legislative process to change the Labour Code is underway, addressing the need to unify definitions and to put financial contributions and meal vouchers on an equal level. This should resolve the problems which occurred in practice after the last amendment. The final wording of the amendment should be known in September 2021.

The amendment is expected to come into effect on 01/01/2022.

The proposed change of the Labour Code should make sure that employers can contribute to the meals of employees by up to 100 % of per diems provided for business trips with the duration 5 – 12 hours (now 55 %). **Such contribution should be tax deductible for the employer and exempt from tax and social security contributions for employees.**

As employees provide the meal vouchers and/or the financial contribution to meals at the beginning of a calendar month, they bear an additional administrative burden in the event of obstacles to work or of holiday of employees during the calendar moth. For this reason, the employers should have the possibility to provide meal vouchers and/or the financial contribution similarly as wages, i.e. subsequently, but **no later than on the last day of the calendar month to follow.** The employers will have the option to provide the meal vouchers and/or financial contributions for meals in advance, if agreed so in the collective agreement or in the employment contract with the employee.

TOP 6: COMMUNICATION ON BUSINESS TAXATION FOR 21ST CENTURY

On 18/05/2021, the European Commission (EC) published a document called Communication on Business Taxation for 21st Century, outlining both a short- and long-term vision to support Europe's recovery from the COVID-19 pandemic and to ensure sufficient tax revenues for years to come.

The aim is a balanced tax mix and a tax system based on the principles of fairness, efficiency and simplicity. One of the most important and ambitious proposals is the "Business in Europe: Framework for Income Taxation" ("BEFIT"), which the EC intends to present by 2023, bearing in mind that direct taxes are not harmonised and are currently the responsibility of the Member States, what the Member States will not want to give up.

Back in 2011, the EC introduced the concept of "common taxation" CCCTB, which should be now replaced by BEFIT, which will take into account the new forms of doing business in a global world.

BEFIT would mean the introduction of new, uniform corporate taxation rules applicable to all EU Member States for the calculation of the tax base and the allocation of profits to particular Member States. BEFIT would also allow multinational corporations to file only one EU tax return for the whole group.

The second proposal published is the annual publication of the effective tax rates paid by selected large corporations operating in the EU. In this way, the EC would like to force large corporations to be more transparent. Transparency is also to be achieved by obliging large corporations to report to the tax authorities the necessary information to enable them to assess whether the company has sufficient substance and economic activity in a particular jurisdiction. Companies unable to demonstrate these facts would be denied tax benefits. In this way, the EC seeks to combat companies that exist only on paper and have been set up with the only aim to obtain tax advantages in a particular country (shell companies).

The EC has also invited Member States to review the rules for loss carry back as well as the applicability of the cost of equity financing (similar to debt financing), which should balance the advantages of equity vs. debt financing (tax deductibility of interest).

These planned tax reforms are truly very extensive and ambitious. The published document is not exhaustive.

TOP 7: COOPERATION WITHIN TAXAND

The world's largest independent tax organization TAXAND, to which our company belongs, has prepared two very helpful publications for its clients:

COVID COUNTRY REPORT
An update of tax measures adopted in response to the COVID-19 pandemic in 36 countries worldwide.

M&A GLOBAL GUIDE UPDATE
An overview on mergers and acquisitions, which can prove to be very helpful for companies which strive to restructure their business or make it more efficient during the post-COVID crisis.

TOP 8: FIGHTING TAX CRIME

In June, OECD published a document called Fighting Tax Crime: The Ten Global Principles, which sets out the 10 essential principles for effectively fighting tax crimes.

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As highlighted by OECD on its website, the document covers the legal, institutional, administrative and operational aspects necessary for putting in place an efficient system for fighting tax crimes and other financial crimes.

The purpose is to allow jurisdictions to benchmark their legal and operational framework and identify areas where improvements can be made. The Second Edition evaluates 10 principles of fighting tax crime as applied in particular countries. Unlike the Czech Republic, Slovakia has not been included in the overview yet.

TOP 9: GLOBAL MINIMUM CORPORATE INCOME TAX RATE

As a follow-up to TOP 6, the G7 Finance Ministers met in London on 05/06/2021 and agreed to introduce a minimum corporate income tax rate of 15 % (OECD Pillar 2). This is an agreement of the world's most advanced economies, so it can be assumed that this could be the first step towards a global agreement based on the influence of G7. The reason for raising this issue was the relocation of multinational corporations to low-tax countries, which did not correspond to where their activities took place. Further progress was expected of the G20 meeting in July this year. On 01/07/2021, OECD informed that 130 countries, representing more than 90% of global GDP, agree with the minimum 15% corporate income tax rate. From the point of view of European countries, a minimum tax rate of 15 % is not a major constraint. A more detailed commentary with the views of our founding partner can be found here.

TOP 10: OECD PUBLIC COMMENTS RECEIVED TO COMMENTARIES ON THE OECD MODEL TAX CONVENTION ON ARTICLE 9 (ASSOCIATED ENTERPRISES)

OECD has received Public Comments on proposed changes to Commentaries in the OECD MTC on associated enterprises and on related articles. We expect that the new wording will contribute to a significant shift in interpretations regarding **transfer prices**. The call for comments is part of the work on an inclusive BEPS framework. The comments received were published by OECD on its website on 03/06/2021. After consideration, the OECD Working Party will incorporate the comments into a new commentary on the model treaty.

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USEFUL LINKS

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Business Taxation for the 21st Century
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