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Towards the end of the year, the U.S. President once again sought to attract attention by announcing plans to **abolish income tax in the United States** and replace it with customs duties (TOP 10). While we cannot promise such miracles, we nevertheless sincerely wish you, as we enter the New Year, the lowest possible tax burden, peaceful nights free from tax-audit nightmares, and a reduction in administrative duties. As always, we bring you our quarterly overview of the most important tax developments.

The most extensive topic in our New Year's Newsfilter is the **adopted amendment to the VAT Act** (TOP 1), which will gradually reshape the VAT rules through to 2030. The key changes primarily concern **limitations on VAT deduction for passenger vehicles**, the reclassification of selected foodstuffs and beverages back to the standard 23% VAT rate, and the **introduction of mandatory e-invoicing**. The second major area covers changes to the financial transaction tax (TOP 2), in particular a clarification of the definition of a permanent establishment, under which tax obligations may also arise for foreign entities that would not previously have expected them. The third topic focuses on **the government's plan to combat tax evasion and the shadow economy** (TOP 3), which is intended to become a key tool of fiscal consolidation.

Further topics reflect developments in case law and regulation, including the **obligation of the tax authorities to apply a more favourable penalty regime** (TOP 4) and the **postponement of mandatory ESG reporting** (TOP 5), allowing many businesses to avoid unnecessary administrative burdens. Also noteworthy are the changes to the OECD Commentary regarding **remote work** and the creation of a permanent establishment (TOP 7). Significant attention is given to the latest case law of the Court of Justice of the EU, which clearly links **transfer pricing with the VAT framework** (TOP 8) and increases documentation requirements for multinational groups. Particular emphasis is placed on the **European Commission's report on tax gaps** (TOP 9), according to which the average corporate income tax gap reaches almost 11%, with Slovakia ranking among the countries with the weakest performance.

Happy New Year wishes from the BMB Team!

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TOP 1: ADOPTED AMENDMENT TO THE VAT ACT

In the last Newsfilter (2025Q3), we informed you about the expected changes in the field of value added tax (VAT) that formed part of the consolidation package. The amendment to the VAT Act was adopted shortly before Christmas and, compared to the originally proposed legislative text, did not bring any major surprises. The first package of measures entered into force on 1 January 2026 and primarily concerns changes to the right to deduct input VAT on motor vehicles as well as adjustments to VAT rates on selected goods. As of 1 January 2027, the reforms will be significantly expanded, in particular in the area of mandatory electronic invoicing and through the introduction of new instruments available to the tax authorities (e.g. ex officio group registration). Subsequently, further changes are expected as part of the EU-wide VAT digitalisation initiative (ViDA) from July 2030. These measures envisage a fundamental transformation of reporting obligations as well as the introduction of electronic invoicing also for cross-border transactions.

Below is a brief overview of the key changes:

1) Input VAT deduction on motor vehicles and related expenses (since 1 January 2026)

As of 2026, a flat-rate input VAT deduction of 50% has been introduced for selected categories of passenger cars, regardless of the actual extent of use for private and company purposes. Vehicles for which a 100% input VAT deduction is claimed must be reported to the tax authority via an electronic form. From a corporate income tax perspective, the non-deductible portion of VAT constitutes a non-deductible expense for the taxpayer.

The amendment also affects expenses related to the use of vehicles in categories M1, L1e and L3e, in particular fuel costs, maintenance, spare parts and vehicle-related services. A 50% input VAT deduction applies also in the case of rental or leasing of the affected vehicles.

The Corporate Income Tax Act has not yet been aligned with these changes; accordingly, it remains possible to apply a flat-rate allocation of 80% / 20% or another internally determined percentage reflecting private use.

Recommendation: Review and update internal policies, in particular those relating to private use, fuel costs, and also in the context of the taxation of the taxable benefit in kind at 1% or 0.5% as employment income, and ensure a corresponding adjustment of VAT-related accounting processes.

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2) VAT rates – Return of selected foodstuffs/beverages to the 23% standard rate (since 1 January 2026)

As of 1 January 2026, the standard VAT rate of 23% again applies to selected goods, in particular those with a higher content of sugar, salt or sweeteners. This includes, inter alia, ice cream, sweetened non-alcoholic beverages, syrups, certain instant teas, jams, and other comparable products. As of 1 January 2025, three VAT rates apply in Slovakia, which will also remain in force in 2026:

- the standard rate of 23%, applicable to the majority of goods and services,
- the reduced rate of 19%, applying to selected goods and services, including certain food products and basic inputs intended for their production,
- the reduced rate of 5%, which applies primarily to selected pharmaceuticals, books, and healthcare and social services.

3) Electronic invoicing from 2027/2030

As of 2027, the mandatory issuance of electronic invoices for domestic supplies will be introduced (subject to certain exceptions). At the same time, the obligation on the recipient's side is emphasised: the customer must be capable of receiving an electronic invoice transmitted via a delivery service.

According to information from the Financial Directorate, a project enabling voluntary participation in electronic invoicing is expected to be launched during 2026 (with a planned start in spring 2026). This is part of the government's plan to combat tax evasion.

From 2030, mandatory electronic invoicing will also apply to intra-Community transactions. At the same time, the abolition of the Recapitulative Statement and the VAT Control Statement is expected.

Entities should therefore prepare comprehensively during 2026 for the implementation of electronic invoicing, in particular by assessing suitable software solutions, adapting internal document flows and approval processes, and ensuring appropriate archiving arrangements, among other preparatory steps.

4) Ex officio group registration (from 2027) – risk of artificial fragmentation of activities

As of 2027, the tax authorities will be empowered to carry out a group registration ex officio where an economic activity is split among several legal entities with the aim of avoiding the payment of VAT, in particular by artificially staying below the turnover threshold for mandatory domestic VAT registration. This measure constitutes one of the tools available to the tax authorities to combat artificial arrangements and the circumvention of VAT obligations.

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TOP 2: CHANGES TO THE FINANCIAL TRANSACTIONS TAX

Since the adoption of the Financial Transactions Tax (FTT) Act at the end of 2024, we have reported on several amendments, most recently in the previous issue of the BMB Newsfilter (2025Q3). This latest proposal was approved by the National Council of the Slovak Republic on 30 September 2025, and the amendment entered into force on 1 January 2026.

The original draft provided for the exclusion of natural persons – entrepreneurs from the scope of the Act (regardless of the amount of their taxable income), as well as legal persons and branch offices of foreign entities whose taxable income (revenues) did not exceed EUR 100,000 in the immediately preceding tax period. However, contrary to this proposal, the version ultimately adopted excludes only natural persons – entrepreneurs from the scope of the Act. Legal persons therefore remain subject to the Financial Transactions Tax without any exception.

Furthermore, the Act now provides a more precise definition of who qualifies as a taxpayer and who as the person liable to pay the tax. It **distinguishes between entities with unlimited and limited tax liability**, while at the same time further specifying the categories of public sector bodies and non-profit organisations that remain fully excluded from the scope of the tax. In addition, a **new definition of "recharged cost"** is introduced, intended to harmonise the approach in situations where a financial transaction is carried out within a group by another person on behalf of the taxpayer.

The most significant change concerns the concept of a "**permanent establishment**." The amendment sets out in great detail the circumstances under which the activities of a foreign company in the Slovak Republic are deemed to be of a permanent nature and give rise to a tax liability. In addition to traditional forms such as a branch, office or place of business, a permanent establishment will now also be deemed to exist, inter alia, in cases involving the provision of services via an electronic interface located in the Slovak Republic, construction and installation **projects exceeding 15 days**, the provision of services by the company's employees, the activities of dependent agents, as well as situations where the insurance risk is located domestically. As a result, the amendment significantly broadens the range of circumstances in which a foreign legal entity may become subject to the FTT in the Slovak Republic.

The new rules also cover situations in which the taxpayer carries out a transaction via an account other than the designated account; in such cases, the tax authority may impose a penalty.

TOP 3: GOVERNMENT'S PLAN TO COMBAT TAX EVASION

The National Bank of Slovakia (NBS) has pointed out that the increase in the standard VAT rate to 23% in 2025 did not deliver the desired results and that the efficiency of tax collection remains weak, thereby reducing the expected impact of the tax reforms. A detailed report on tax gaps has also been published by the European Commission; however, its data reflect earlier periods (TOP 9).

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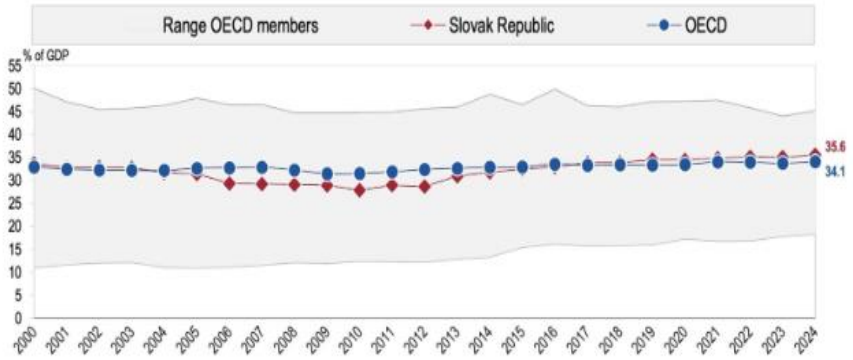
An OECD comparison indicates that Slovakia has a relatively high tax burden, which represents a negative trend from an investor perspective

CHART: Tax burden-to-GDP ratio



The government's consolidation plans will focus on more efficient tax collection and administrative processes. The Prime Minister and the government present the fight against tax evasion and the shadow economy as a key priority for restoring public finances without further tax increases. The proposed strategies are expected to include in particular:

- Enhancement of tax administration – digitalisation and the deployment of automated fraud detection systems.
- Stronger controls and the introduction of e-invoicing – enabling faster identification of carousel fraud and fictitious invoicing schemes.
- Targeted reforms – improved coordination among public authorities (tax administration, police, courts), including in the investigation of tax offences.

TOP 4: TAX AUTHORITIES MUST TAKE INTO ACCOUNT THE MORE FAVOURABLE SANCTION REGIME FOR TAXPAYERS

By judgment of 22 August 2025, the Supreme Administrative Court of the Slovak Republic annulled the decision of the Financial Directorate imposing a penalty for an incorrectly declared tax liability and remitted the case for further proceedings.

The Court held that the claimant had committed the tax offence prior to the initiation of the proceedings (restructuring). Consequently, the **more recent and more favourable legal framework** had to be applied, which does not allow for the imposition of a penalty in such circumstances.

However, the Court rejected the claimant's argument that the tax authority had already been aware of the incorrect VAT treatment as a result of a **corporate income tax audit**, noting that **corporate income tax** and VAT constitute **two distinct types of taxes**.

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In summary, this means that the tax authorities are required to take into account a sanction regime that is more favourable to the taxpayer, even if such a regime entered into force only after the administrative decisions had become final and binding.

TOP 5: POSTPONEMENT OF MANDATORY ESG REPORTING

As a result of the **amendment to the Accounting Act** No. 187/2025 Coll., the deadlines for mandatory sustainability (ESG) reporting have been postponed in the Slovak Republic. This amendment responds to the European *Omnibus I* package and provides for a two-year deferral for companies falling within the "second" and "third" reporting waves. The amendment sets out these changes in Section 39zc(5), (6) and (7). The original effective date of 1 January 2025 applicable to **companies in the second wave (i.e. large undertakings) has been replaced by 1 January 2027.** As a result, these companies will be required to disclose sustainability information for the first time in the management report for the financial year beginning on 1 January 2027, i.e. **in 2028.** Similarly, the original effective date of 1 January 2026 for **companies in the third wave (i.e. small undertakings) has been replaced by 1 January 2028.** Accordingly, these companies will report sustainability information for the first time in the management report for the financial year beginning on 1 January 2028, i.e. **in 2029**. The amendment entered into force on **10 July 2025**, granting companies additional time to prepare the necessary processes and systems required to comply with the CSRD Directive and the related ESRS standards. This primarily concerns companies outside the financial sector, with large and small undertakings being defined as follows:

Year	Entities concerned
2027	Large undertakings (as defined by the Directive, not the Act on Accounting), i.e. total assets exceeding EUR 25 million, net turnover exceeding EUR 50 million, number of employees exceeding 250)
2028	Small undertakings, i.e. listed small and medium-sized undertakings (excluding micro-undertakings)

TOP 6: NUMBER OF DOUBLE TAX TREATIES INCREASES TO 75

The network of international bilateral double tax treaties (DTTs) that the Slovak Republic has been building up on a gradual basis was further expanded again this year. Slovakia currently has **75 double tax treaties in force**, which provide taxpayers with greater legal certainty, support cross-border business activities and contribute to a fairer taxation of income.

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Following the double tax treaties with Albania, Azerbaijan, New Zealand and Saudi Arabia, which entered into force in 2024 and which we have already reported on, the **agreement between the Slovak Republic and the Kyrgyz Republic** represents the most recent addition. This agreement was signed in March 2024, approved by the National Council of the Slovak Republic in September 2024, and ratified by the President in October 2024. It entered into force on **1 March 2025**. Pursuant to Article 7(5) of the Constitution of the Slovak Republic, these international agreements take precedence over domestic law.

TOP 7: NEW OECD COMMENTARY ON HOME OFFICE

In November 2025, the OECD published an update to the **OECD Model Tax Convention on Income and on Capital**, together with a revised Commentary, introducing **significant changes in the area of remote work and the creation of a permanent establishment (PE)**. The focus lies on the interpretation of the concept of a **fixed place of business** in the context of cross-border teleworking. The updated Commentary on Article 5 no longer places emphasis on whether the employer explicitly or implicitly requires the employee to work from home, thereby removing the interpretative uncertainty that previously existed. The new guidance is not limited to home-office arrangements but also extends to other places of work, such as coworking spaces. The **degree of permanence** now constitutes the decisive criterion. As a general rule, performing work from abroad for up to 50% of the working time within a twelve-month period does not result in the creation of a permanent establishment. Where this threshold is exceeded, an individual assessment is required, with particular attention being paid to the **economic or commercial rationale for the employee's presence abroad.**

For companies, this means that the design of cross-border remote work arrangements may have **direct tax implications.** The creation of a permanent establishment affects both corporate income taxation and the taxation of the employees concerned. Organisations should therefore review their cross-border working models and carefully assess the risk of creating a permanent establishment, in particular in cases of long-term work performed abroad or where the employee's presence in another jurisdiction serves the business interests of the enterprise.

TOP 8: RECENT CJEU CASE LAW: TRANSFER PRICING VERSUS VAT

In September 2025, the Court of Justice of the European Union (CJEU) delivered a landmark judgment in Case Arcomet Towercranes, in which it confirmed that **non-transactional profit adjustments** charged by a parent company to its subsidiary constitute **consideration for a supply of services** and therefore **fall within the scope of VAT**.

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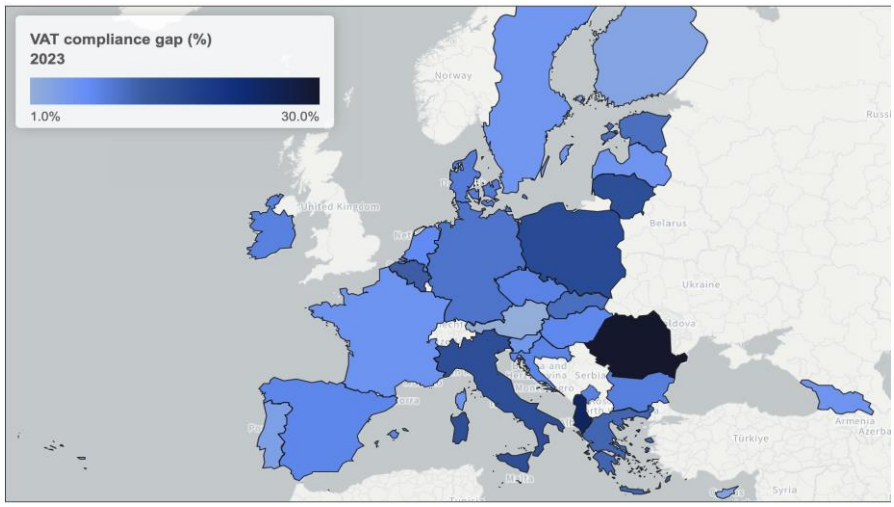
Arcomet Belgium, acting as the principal and performing strategic and commercial functions for Arcomet Romania, issued so-called *balancing invoices* in order to adjust the profit margin of the Romanian company to an *arm's length* level. The Court concluded that these payments arise from a legal relationship involving reciprocal performance within the meaning of the transfer pricing policy agreed upon.

At the same time, the Court held that the **VAT charged on such services is deductible as input VAT**, provided that the substantive requirements for deduction are met and adequate supporting documentation is available. While the tax authorities may request additional evidence that is proportionate to the circumstances, they **may not refuse the right to deduct input VAT solely on the basis of minor formal deficiencies**, nor may they call into question the economic reality of the services supplied without sufficient justification.

This judgment provides a **long-awaited clarification** of the VAT treatment of transfer pricing adjustments and is likely to have a significant impact on the design of transfer pricing models within multinational groups. Companies are therefore advised to **review their transfer pricing policies and the associated VAT processes** and, where necessary, adjust them to ensure alignment with this new interpretation.

TOP 9: EC PUBLISHES REPORT ON TAX GAPS

In December 2025, the European Commission published a new analytical information package on tax gaps in the EU, aimed at supporting competitiveness and promoting fairer tax systems. The core of this package is the pilot report **"Mind the Gap"**, which provides a comprehensive overview of tax gaps across the EU and its 27 Member States. This is complemented by two technical studies – the **VAT Gap Report** and the **CIT Gap Report**.



Source: VAT Gap Report 2023

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According to the latest available data, the **VAT Gap** amounted to up to **EUR 128 billion in 2023**, pointing to significant revenue losses for public finances. The highest VAT Gaps were recorded in Romania (30%) and Malta (24.2%), while Austria (1%) and Finland (3%) achieved the best results. The report also highlights a substantial VAT Policy Gap of 50.5%, driven primarily by the application of reduced VAT rates and exemptions.

The CIT Gap Report indicates that the average Corporate Income Tax Gap amounts to **nearly 11% of collected revenues**, with Slovakia and Romania exceeding the 20% threshold. By contrast, Denmark, the Netherlands and Finland report a CIT Gap of less than 3%.

TOP 10: TRUMP PROPOSES THE ABOLITION OF INCOME TAX

The US President has once again sought to attract attention by declaring his intention to abolish income tax in the United States and replace it with customs duties. At first glance, this idea may appear appealing, particularly against the backdrop of the domestically unpopular "jam consolidation" measures. However, a comparison with macroeconomic indicators presents a markedly different picture. Income tax currently accounts for approximately one half of total US federal budget revenues, whereas customs duties generate only a marginal share. In fiscal year 2025, which ended on 30 September 2025, customs revenues amounted to only around one fourteenth of the approximately USD 2.7 trillion collected from income tax. The notion that a revenue source of this size could replace a central pillar of federal financing appears rather as a weak attempt to divert attention from other issues. Were the United States to rely exclusively on customs duties, a substantial increase in tariff rates across almost the entire range of goods would be unavoidable. Such a shock to the price environment would inevitably lead to a significant rise in consumer prices and generate additional inflationary pressure – an issue the US economy is already facing. Retaliatory measures by the EU, China or Canada would further place a considerable burden on US exporters. As a result, trade flows would be redirected away from the United States, causing potential customs revenues to decline even further, paradoxically undermining the very objective of such a policy. An additional source of uncertainty arises from the ongoing proceedings before the US Supreme Court, which is examining whether the introduction of certain tariffs imposed by Trump was in fact consistent with the law. Irrespective of the outcome of these proceedings, however, the fundamental conclusion remains unchanged: customs revenues are not capable of compensating for the loss of income tax. From an economic perspective, this proposal is therefore not realistic. You can find more on this topic in the article by our partner Renáta Bláhová.

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USEFUL LINKS

OECD statistics on tax burden (EN):

https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/12/revenue-statistics-2025-country-notes_3708be73/slovak-republic_a3159d48/3cb19258-en.pdf?utm_source=chatgpt.com)

Update of the OECD Commentary (EN):

https://www.oecd.org/en/publications/2025/11/the-2025-update-to-the-oecd-model-tax-convention_c7031e1b.html

European Commission Report on VAT and Corporate Income Tax Gaps (EN):

https://taxation-customs.ec.europa.eu/news/european-commission-releases-report-tax-gaps-support-competitiveness-and-fairer-tax-systems-2025-12-11_en

Article by Renáta Bláhová "Trump repeats his pledge to abolish the income tax" (SK): https://e.dennikn.sk/5021595/trump-zopakoval-ze-zrusi-dan-z-prijmov/?cst=a5554cc09f4d84a1bfcb5dca533fcca885f74551b0b3bbb3990553447f9924e2

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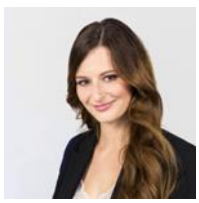
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