Slovakia

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What's new?

Summary of updates/Changes to R&D and government incentives from 1 January 2019 through 31 October 2020

The R&D expense super deduction increased from 150% to 200% on 1 January 2020 (based on a tax rate of 21%, there will be a net saving of 42%).

Featured government incentives

Incentive name	Description	Maximum percentage	Qualification standards	Key exclusions or issues
R&D deduction	Expenses incurred on R&D may be deducted from the tax base more than once	200% (from 2020)	R&D expenses	Costs on services are disallowed
Technology center incentives	Establishment of a new or the enhancement of an existing center can be supported by a cash grant or tax relief	35%	Capex or new jobs, salaries	Government approval is required
Industrial projects incentives	Establishment of a new or the enhancement of an existing industrial project can be supported by a cash grant or tax relief	35%	Capex or new jobs, salaries	Government approval is required

Industries most often affected by government incentives in country

	Technology, Media & Telecom		**Financial Services**
●	Telecom, Media & Entertainment		Banking & Capital Markets
●	Technology		Insurance
	Consumer		Investment Management
	Consumer Products		Real Estate
	Retail, Wholesale & Distribution		**Life Sciences & Health Care**
●	Automotive	●	Health Care
	Transportation, Hospitality & Services	●	Life Sciences
	Energy, Resources & Industrial		**Government & Public Services**
	Power & Utilities		Health & Social Care
	Mining & Metals		Defense, Security & Justice
	Oil, Gas, & Chemicals		Civil Government
●	Industrial Products & Construction		International Donor Organizations
			Transport

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Type	National incentive?	State, provincial, regional or local incentives?[1]	Filing deadlines imposed?	Is the claim made in advance or arrears?[2]	Nature of incentive	Maximum benefit available to small and medium-sized enterprises	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	🟢	🔴	🟢	Arrears	Tax base deduction	200% super deduction for qualifying research expenses (QREs), plus a benefit from a year-on-year increase	200% super deduction for qualifying research expenses (QREs), plus a benefit from a year-on-year increase
R&D grant (national)	🟡	🔴	🔴	Arrears	Cash grant, tax relief	35% aid intensity	45% aid intensity
R&D grant (EU)	🟡	🔴	🟢	Arrears	Cash grant	Up to 90%	Up to 90%
Patent box	🟢	🔴	🟢	Arrears	Patent income is partially exempt from tax	Exemption for 50% of income from royalties resulting from patents, utility models, and software; or 50% exemption of income from a product sale for which a patent or utility model has been used	Exemption for 50% of income from royalties resulting from patents, utility models, and software; or 50% exemption of income from a product sale for which a patent or utility model has been used
Investment							
Capex	🟢	🔴	🔴	Arrears	Cash grant, tax relief	Varies, depending on the project, volume of the investment, and geographic location	Varies, depending on the project, volume of the investment, and geographic location
Employment	🟢	🔴	🔴	Arrears	Cash contribution		
Training	🟢	🔴	🔴	Arrears	Cash contribution		

Key: 🟢 = PERMANENT INCENTIVE (‖) = TEMPORARY INCENTIVE (‖) = NEGOTIABLE 🔴 = NO 🟡 = LIMITED APPLICABILITY ⚪ = NOT APPLICABLE

Notes:

1. Green means that this incentive is currently in effect. Yellow means that the incentive has limited applicability, i.e., the requirements for this incentive limit its value to most companies. Red means that there is no incentive.
2. If the response is advance, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is arrears, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in arrears because they are reported on tax returns.

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Country background

Slovakia's corporate tax rate is 21%.

There are three main types of R&D incentives in R&D in Slovakia: an R&D super deduction, tax relief or a cash grant for R&D centers located in less developed regions of the country, and EU funds in the form of cash. Slovakia also has a patent box regime.

Innovation Incentives

Nature of incentives

R&D super deduction

Taxpayers that conduct qualifying R&D activities are entitled to a super deduction, which effectively allows the taxpayer to deduct expenses incurred on R&D activities from the tax base more than one time. For 2020, the deduction amount is twice the amount of R&D expenses (in total, every R&D expense will be deducted from the tax base three times). Approval of the tax authorities is not required to benefit from the super deduction—the taxpayer simply takes the deduction on its tax return. If the super deduction cannot be utilized in the year claimed due to losses incurred by the taxpayer, it may be carried forward and used over the following five tax periods.

Aid for technological centers

To encourage companies to expand in less developed regions of Slovakia, the government offers a tax credit or cash grant, the amount of which is determined by the Ministry of Economy and can range from 25% to 35% of qualifying costs (capital investment for three years or labor costs for two years), depending on the region. The tax credit is applied against the annual income tax liability until it is fully utilized or until the credit expires (10 years after it is granted).

Other non-tax-related R&D incentives

Cash grant programs are available for R&D, including capital expenditure (capex) investment or operational costs from EU funds and from the Slovak government.

Patent box

The patent box provides for up to a 50% corporate income tax exemption for revenue generated by the provision of intangible assets (e.g., revenue from license fees) and revenues generated by the sale of products made with the use of a patent or a utility model.

Eligible industries and qualifying costs

R&D super deduction

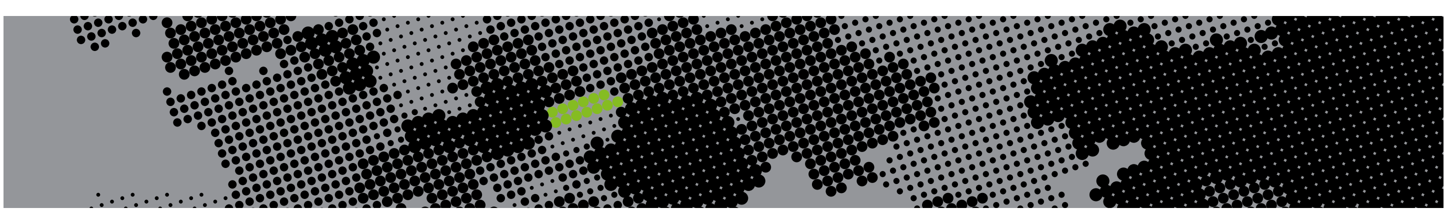
To qualify for the R&D super deduction, the R&D must have a measurable element of novelty and must address technical uncertainties. Qualifying research can address issues that are known in the industry, provided the taxpayer can demonstrate that it must discover the information it needs to develop new/improved products, services, or processes, because the information is inaccessible, unusable, or was not available at the time the project commenced.

Qualifying activities include the introduction of new or improved technology, systems, or services, and the production of new or improved materials, products, and equipment, and the design and verification of prototypes, pilots, or demonstration equipment.

The criteria for qualifying research are similar to the definition of R&D in the OECD Frascati Manual.

Qualifying expenses include both direct costs (e.g., wage costs, costs of materials, software licenses, and overhead expenses) and indirect costs (e.g., depreciation of assets or utility costs).

Fees paid for subcontracted R&D services are qualifying expenses if the work is subcontracted to public universities or public research institutions. Fees paid to certified private R&D organizations are eligible provided the organization does not also claim the super deduction for the costs it incurred in providing the qualifying services. The super deduction excludes expenses paid through government and public subsidies.



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Technological centers
All industries, except industries excluded for EU regional aid (e.g., agriculture and steel industry), generally are eligible to apply for the incentives offered to technological centers. Technological centers can be located anywhere in Slovakia, except the Bratislava region. The eligibility criteria for technological centers are as follows:

- The acquisition of tangible and intangible assets must be at least EUR 100,000;
- At least 10 new jobs must be created; and
- The salary for new employees must represent at least two times the average salary in the region.

IP and jurisdictional restrictions

Patent box
The following revenue is exempt from tax under the patent box regime:

- Revenue from the provision of intangible assets:
  - From inventions protected by a patent registered in the Slovak Republic and the EU that are the result of the company's own R&D;
  - From technical solutions protected by a utility model that are the result of the company's own R&D; and
  - From software subject to copyright as a result of the company's own development activities.
- Revenue from the sale of products made using a patented invention or a technical solution protected by a utility model that result from the company's own R&D activities.

Other instruments
There are no IP registration requirements for other instruments.

Other concerns

R&D super deduction
Government approval is not required to claim the super deduction, but before the project commences, the taxpayer must prepare a project plan that specifies the qualifying activities the researchers will undertake (the plan only has to be submitted to the tax authorities upon request during an audit). The documentation typically includes:

- A description of the project, specifying the objectives;
- The project schedule, including the phases of the project; and
- Details regarding the administration of the project, including project staffing and budget.

Technological centers
The incentives for technological centers must be approved by the Slovak government, and the application process is time consuming.

Patent box
The patent box can be used by legal entities subject to taxation in the Slovak Republic or foreign legal entities that have a permanent establishment in the Slovak Republic (provided a functional connection between the intangible asset and the permanent establishment can be documented).

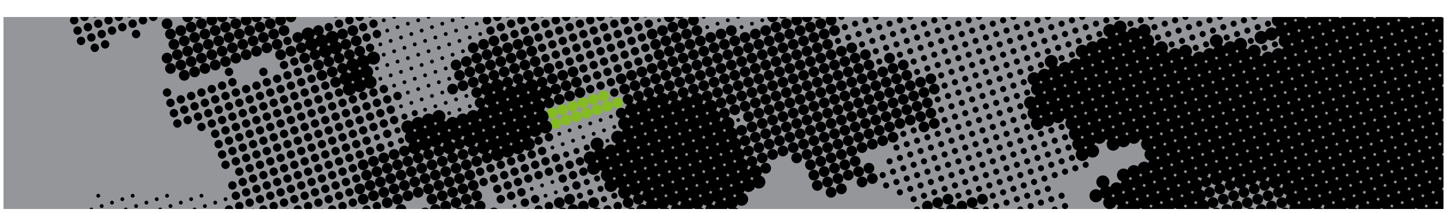
No application or approval is required; the entity is entitled to the exemption once the relevant criteria are met. The taxable entity applies the exemption in its tax return.

Other non-tax-related R&D incentives
These incentives depend on the availability of funding, and the application process is open only if there is a published call.

Investment Incentives

Innovation and Investment

Investment incentives to support investments in economically less-developed regions in Slovakia are provided under the Act on Investment Incentives and are subject to approval procedures. The rules are based both on Slovakia's domestic law and EU legislation.



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In general, the forms and extent of the investment incentives depend on the type of project, the extent of the investment, and the geographical location of the investment.

Slovakia can provide the following investment incentives:

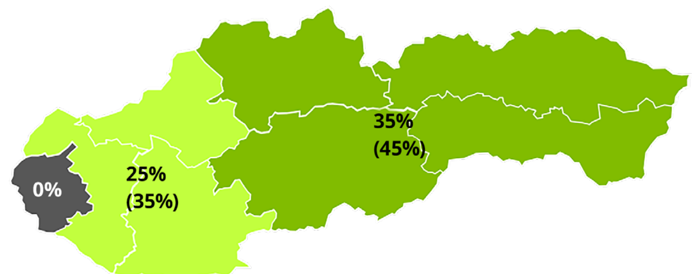
- Tax credit for up to 10 years;
- Cash grant for the purchase of assets;
- Cash contribution for the creation of new jobs; and
- Transfer of land (owned by the municipality/state) at a rate lower than market value.

The following types of projects may be granted investment aid:

- Industry;
- Technology centers; and
- Shared services centers.

The incentives can be applied to a new project (a greenfield investment) or to the expansion of an existing facility. The rules governing the minimum investment amounts, timing, and extent of incentives basically are the same for a new investment in a new establishment and for the expansion of an existing establishment. The beneficiary of the incentive must be a Slovak legal entity with its registered seat in the Slovak Republic, although an application can be submitted by the parent company.

Maximum percentages of incentives



For investment plans of small and medium-size enterprises (SMEs), the maximum aid amount can be increased by 10% for medium-sized enterprises and 20% for small enterprises.

The category of micro enterprises and SMEs includes enterprises that employ fewer than 250 persons and whose annual turnover does not exceed EUR 50 million, and/or the enterprise has an annual balance sheet total not exceeding EUR 43 million. Within the SME category, a small enterprise is defined as an enterprise that employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million.

All companies must submit an application to the Ministry of Economy. The application process consists of several steps, including filing the initial investment plan, which is reviewed by the ministry and other bodies. Following the review, the Ministry of Economy prepares an offer of investment incentives to the investor. If the investor agrees, the application for investment incentives can be filed, and then the ministry issues a decision on whether the incentives should be granted. The entire process can take five to nine months.