

# Slovak Republic

| Slovak Republic   |       | 2004                                       |        |        |        |
|---|-------|--|--------|--------|--------|
|   |       | The tax/benefit position of single persons |        |        |        |
| Wage level (per cent of APW)  |       | 67   | 100    | 167    | 67     |
| Number of children  |       | none                                       | none   | none   | 2      |
| <b>Gross wage earnings</b>  |       | 120000                                     | 180000 | 300000 | 120000 |
| <b>Standard tax allowances</b>  |       |  |        |        |        |
| Basic allowance   |       | 80832                                      | 80832  | 80832  | 80832  |
| Married or head of family   |       | 0  | 0      | 0      | 0      |
| Dependent children  |       | 0  | 0      | 0      | 0      |
| Deduction for social security contributions and income taxes              |       | 16080                                      | 24120  | 40200  | 16080  |
| Work-related expenses   |       |  |        |        |        |
| Other   |       |  |        |        |        |
|   | Total | 96912                                      | 104952 | 121032 | 96912  |
| <b>Tax credits or cash transfers included in taxable income</b>           |       | 0  | 0      | 0      | 0      |
| <b>Central government taxable income (1 - 2 + 3)</b>                      |       | 23088                                      | 75048  | 178968 | 23088  |
| <b>Central government income tax liability (exclusive of tax credits)</b> |       | 4387                                       | 14259  | 34004  | 4387   |
| <b>Tax credits</b>  |       |  |        |        |        |
| Basic credit  |       | 0  | 0      | 0      | 0      |
| Married or head of family   |       | 0  | 0      | 0      | 0      |
| Children  |       | 0  | 0      | 0      | 9600   |
| Other   |       | 0  | 0      | 0      | 0      |
|   | Total | 0  | 0      | 0      | 9600   |
| <b>Central government income tax finally paid (5-6)</b>                   |       | 4387                                       | 14259  | 34004  | -5213  |
| <b>State and local taxes</b>  |       | 0  | 0      | 0      | 0      |
| <b>Employees' compulsory social security contributions</b>                |       |  |        |        |        |
| Gross earnings  |       | 16080                                      | 24120  | 40200  | 16080  |
| Taxable income  |       |  |        |        |        |
|   | Total | 16080                                      | 24120  | 40200  | 16080  |
| <b>Total payments to general government (7 + 8 + 9)</b>                   |       | 20467                                      | 38379  | 74204  | 10867  |
| <b>Cash transfers from general government</b>                             |       |  |        |        |        |
| For head of family  |       |  |        |        |        |
| For two children  |       | 0  | 0      | 0      | 12320  |
|   | Total | 0  | 0      | 0      | 12320  |
| <b>Take-home pay (1-10+11)</b>  |       | 99533                                      | 141621 | 225796 | 121453 |
| <b>Employers' compulsory social security contributions</b>                |       | 42720                                      | 64080  | 106800 | 42720  |
| <b>Average rates</b>  |       |  |        |        |        |
| Income tax  |       | 3.7%                                       | 7.9%   | 11.3%  | -4.3%  |
| Employees' social security contributions                                  |       | 13.4%                                      | 13.4%  | 13.4%  | 13.4%  |
| Total payments less cash transfers  |       | 17.1%                                      | 21.3%  | 24.7%  | -1.2%  |
| Total tax wedge including employer's social security contributions        |       | 38.8%                                      | 42.0%  | 44.5%  | 25.4%  |
| <b>Marginal rates</b>   |       |  |        |        |        |
| Total payments less cash transfers: Principal earner                      |       | 29.9%                                      | 29.9%  | 29.9%  | 29.9%  |
| Total payments less cash transfers: Spouse                                |       | n.a.                                       | n.a.   | n.a.   | n.a.   |
| Total tax wedge: Principal earner   |       | 48.3%                                      | 48.3%  | 48.3%  | 48.3%  |
| Total tax wedge: Spouse   |       | n.a.                                       | n.a.   | n.a.   | n.a.   |
| Memorandum item: Non-wastable tax credits                                 |       |  |        |        |        |
| tax expenditure component   |       | 0  | 0      | 0      | 4387   |
| cash transfer component   |       | 0  | 0      | 0      | 5213   |

| Slovak Republic   |       | 2004  |        |        |        |        |
|---|-------|---|--------|--------|--------|--------|
|   |       | The tax/benefit position of married couples |        |        |        |        |
|   |       | Wage level (per cent of APW)                | 100-0  | 100-33 | 100-67 | 100-33 |
|   |       | Number of children                          | 2      | 2      | 2      | none   |
| <b>Gross wage earnings</b>  |       |   | 180000 | 240000 | 300000 | 240000 |
| <b>Standard tax allowances</b>  |       |   |        |        |        |        |
| Basic allowance   |       |   | 80832  | 132792 | 161664 | 132792 |
| Married or head of family   |       |   | 80832  | 80832  | 0      | 80832  |
| Dependent children  |       |   | 0      | 0      | 0      | 0      |
| Deduction for social security contributions and income taxes              |       |   | 24120  | 32160  | 40200  | 32160  |
| Work-related expenses   |       |   |        |        |        |        |
| Other   |       |   |        |        |        |        |
|   | Total |   | 185784 | 245784 | 201864 | 245784 |
| <b>Tax credits or cash transfers included in taxable income</b>           |       |   | 0      | 0      | 0      | 0      |
| <b>Central government taxable income (1 - 2 + 3)</b>                      |       |   | 0      | 0      | 98136  | 0      |
| <b>Central government income tax liability (exclusive of tax credits)</b> |       |   | 0      | 0      | 18646  | 0      |
| <b>Tax credits</b>  |       |   |        |        |        |        |
| Basic credit  |       |   | 0      | 0      | 0      | 0      |
| Married or head of family   |       |   | 0      | 0      | 0      | 0      |
| Children  |       |   | 9600   | 9600   | 9600   | 0      |
| Other   |       |   | 0      | 0      | 0      | 0      |
|   | Total |   | 9600   | 9600   | 9600   | 0      |
| <b>Central government income tax finally paid (5-6)</b>                   |       |   | -9600  | -9600  | 9046   | 0      |
| <b>State and local taxes</b>  |       |   | 0      | 0      | 0      | 0      |
| <b>Employees' compulsory social security contributions</b>                |       |   |        |        |        |        |
| Gross earnings  |       |   | 24120  | 32160  | 40200  | 32160  |
| Taxable income  |       |   |        |        |        |        |
|   | Total |   | 24120  | 32160  | 40200  | 32160  |
| <b>Total payments to general government (7 + 8 + 9)</b>                   |       |   | 14520  | 22560  | 49246  | 32160  |
| <b>Cash transfers from general government</b>                             |       |   |        |        |        |        |
| For head of family  |       |   |        |        |        |        |
| For two children  |       |   | 12320  | 12320  | 12320  | 0      |
|   | Total |   | 12320  | 12320  | 12320  | 0      |
| <b>Take-home pay (1-10+11)</b>  |       |   | 177800 | 229760 | 263074 | 207840 |
| <b>Employers' compulsory social security contributions</b>                |       |   | 64080  | 85440  | 106800 | 85440  |
| <b>Average rates</b>  |       |   |        |        |        |        |
| Income tax  |       |   | -5.3%  | -4.0%  | 3.0%   | 0.0%   |
| Employees' social security contributions                                  |       |   | 13.4%  | 13.4%  | 13.4%  | 13.4%  |
| Total payments less cash transfers  |       |   | 1.2%   | 4.3%   | 12.3%  | 13.4%  |
| Total tax wedge including employer's social security contributions        |       |   | 27.2%  | 29.4%  | 35.3%  | 36.1%  |
| <b>Marginal rates</b>   |       |   |        |        |        |        |
| Total payments less cash transfers: Principal earner                      |       |   | 13.4%  | 13.4%  | 29.9%  | 13.4%  |
| Total payments less cash transfers: Spouse                                |       |   | 13.4%  | 13.4%  | 29.9%  | 13.4%  |
| Total tax wedge: Principal earner   |       |   | 36.1%  | 36.1%  | 48.3%  | 36.1%  |
| Total tax wedge: Spouse   |       |   | 36.1%  | 36.1%  | 48.3%  | 36.1%  |
| Memorandum item: Non-wastable tax credits                                 |       |   |        |        |        |        |
| tax expenditure component   |       |   | 0      | 0      | 9600   | 0      |
| cash transfer component   |       |   | 9600   | 9600   | 0      | 0      |

The national currency is the Slovak Koruny (SKK). In 2004 SKK 32.52 was equal to USD 1 (average of eleven months daily exchange rates). In that year, the average production worker earned SKK 180 000 (national estimate).

## 1. Personal income tax system

### 1.1. Central government income taxes

#### 1.11. Tax unit

The tax unit is the individual.

#### 1.12. Tax allowances and tax credits

##### 1.121. Standard reliefs

- *Basic relief*: An allowance for all individuals is set at 19.2 times the minimum standard (MLS) for a basic adult as of January 1st, 2004 (SKK 80 832)
- *Marital status relief*: An additional allowance of SKK 80 832 is given in respect of a spouse living in a common household if that spouse earns no more than SKK 80 832.
- *Relief for children*: The prior allowance for children was replaced by non-wastable tax credit of SKK 4 800 yearly per child (SKK 400 per month). The tax credit for each dependent child is deducted from the tax liability and if this amount exceeds the tax liability, the excess is paid to the taxpayer. To be eligible for this credit, the parent must annually earn at least six times the minimum monthly wage which for 2004 is set at SKK 6 080 (beginning on October 1st, 2004 SKK 6 500) (the total annual earnings must be at least SKK 445 320). Where both spouse work, the credit can be taken by either spouse (as long as each meets the required income test) or split between them as long as the amount for a given month for a given child is fully assigned to one of the two spouses (for the purposes of this Report, it is assumed that the credit is claimed by the principal wage earner). The definition of a dependent child for the purposes of non-wastable tax credit remains the same as it was for the previous child allowance (child must be under 18 years of age or under the age of 26 if enrolled in full-time education or suffering from a disability for which no state disability payment is received).
- *Relief for social and health security contributions*: Employee's social security contributions (see Section 2.1) are deductible for income tax purposes.

##### 1.122. Main non-standard tax reliefs applicable to an APW

- *Supplementary pension insurance*: It is possible to deduct premiums paid to the supplementary pension insurance by tax payer up to 10% of his income, with the maximum limit of SKK 24 000 per year. It should be noted that contributions made by employers on behalf of their employees are now treated as a taxable benefit (these amounts would be added to the income of the employee) as from 2004.

### 1.13. Tax schedule

Beginning on January 1, 2004, the progressive personal income tax rates were abolished and replaced by a flat tax rate of 19%.

### 1.2. State and local income tax

Out of the total revenue from the income tax from dependent personal services and emoluments collected by the State, an amount of SKK 8 703 million is transferred into the budget of municipalities. No separate state and local income tax exist.

## 2. Compulsory social security contributions to schemes operated within the government sector

### 2.1. Employees' contributions

Compulsory contributions of 13.4 per cent of gross wages and salaries (with no limit) are paid by all employees into government operated schemes. The total is made up as follows:

|                  |              |
|------------------|--------------|
| Health insurance | 4.0 per cent |
| Social insurance | 9.4 per cent |
| <i>of which:</i> |              |
| Sickness         | 1.4 per cent |
| Retirement       | 4.0 per cent |
| Disability       | 3.0 per cent |
| Unemployment     | 1.0 per cent |

### 2.2. Employers' contributions

The total contribution for employers varies between 34.7 and 36.5 per cent of gross earnings depending on category of risk associated with the employer's activities. The contribution comprises the health insurance contribution (10 per cent of gross wages and salaries) and the social insurance contribution (between 24.7 and 26.5 per cent). The social insurance rate reflects contributions to sickness insurance (1.4 per cent), disability insurance (3 per cent), retirement insurance (16 per cent), the Guarantee fund (0.25 per cent), accident insurance (between 0.3 and 2.1 per cent depending on category of risk associated with the employer's activities), for unemployment (1 per cent) and to the Reserve fund (2.75 per cent). For the purposes of this Report, the total contribution rate for employers is assumed to be 35.6 per cent.

## 3. Universal cash transfers

### 3.1. Transfers related to marital status

None.

### 3.2. Transfers for dependent children

The central government pays an allowance in respect of each dependent child in the amount of SKK 500 (beginning on September 1st, 2004 SKK 540).

Non-wastable tax credit mentioned in Section 1.121 is a part of social support of families with dependent children. However, it is not considered as a transfer for the purposes of this Report.

### 3.3. Transfers related to social status\*

To determine the claim to state social benefits (for example the allowance for housing costs) the minimum living standard amounts are relevant as they form the basis of the income test. For 2004, these amounts are:

|              | MLS monthly                        |
|--------------|------------------------------------|
| First adult  | 4 210 (4 580 as of July 1st, 2004) |
| Second adult | 2 940 (3 200 as of July 1st, 2004) |
| Child        | 1 910 (2 080 as of July 1st, 2004) |

A family is entitled to a social allowance if the total combined net monthly income of the family is less than the calculated MLS for this family. The extent of the allowance varies in accordance of the type.

The benefits available to a family in material need are:

- SKK 1 450 (SKK 1 530 as of September 1st, 2004) monthly for an individual.
- SKK 2 160 (SKK 2 450) monthly for an individual with between one and four children.
- SKK 2 530 (SKK 2 660) monthly for a couple without children.
- SKK 3 210 (SKK 3 630) monthly for a couple with between one and four children.
- SKK 3 160 (SKK 3 640) monthly for an individual with more than four children.
- SKK 4 210 (SKK 4 850) monthly for a couple with more than four children.
- Activation allowance: SKK 1 500 monthly – for people who become active either by accepting qualifying employment opportunities or participating in retraining courses.
- Housing allowance: SKK 780 (SKK 980 as of September 1st, 2004) for individual in material need, SKK 1 330 (SKK 1 670 as of September 1st, 2004) for a household in material need.
- Protection allowance: SKK 1 500 monthly for an individual in material need where employment is not possible due to such circumstances as a disability or old age.
- Health care allowance: SKK 50 monthly.

### 4. Main changes in tax/benefit systems since 2003

- Progressive tax rate schedule was replaced by a single tax rate of 19 per cent.
- Significant changes in tax allowances and relieves: the basic allowance and the spouse allowance were significantly increased while the child allowance was replaced by a non-wastable tax credit.
- Changes in social security contributions – rates for employers decreased and for employees slightly increased.
- Re-consideration of benefits for those in material need – focus on the activity of persons.
- Changes in children benefits: The amount of SKK 500 (SKK 540 as of July 1st, 2004) is paid for each child without reference to the family income. An additional benefit dependent on the family income was abolished. A non-wastable tax credit for each dependent child of SKK 4 800 yearly (SKK 400 per month) was introduced as of January 1, 2004 where at least one parent works as part of the overall support for families with children.

\* The transfers related to social status do not affect the calculations, for this Report.

## 5. Memorandum items

### 5.1. Identification of APW and valuation of earnings

The average earnings of an APW are estimated by the Slovak Statistical Office from employer survey data. The figures include overtime and bonus payments and also include information for part-time employees converted to full-time equivalents. Male and female workers are included.

**2004 Parameter values**

|                               |              |         | Country estimate |
|-------------------------------|--------------|---------|------------------|
|                               | Ave_earn     | 180 000 |                  |
| Basic allowance               | basic_al     | 80 832  |                  |
| Spouse                        | spouse_al    | 80 832  |                  |
| Income tax rate               | tax_rate     | 0.19    |                  |
| Tax credits – nonwastable     | tax_cr       | 4 800   |                  |
|                               | min_wage     | 6 185   |                  |
|                               | minwage_mult | 6       |                  |
| Social security contributions | SSC_rate     | 0.134   |                  |
| Employers                     | SSC_empr     | 0.356   |                  |
| Minimum living standard (MLS) |              |         |                  |
|                               | basic_adult  | 4 395   |                  |
|                               | basic_adult1 | 3 070   |                  |
|                               | basic_child  | 1 995   |                  |
| Cash transfers                | transf_1     | 6 160   |                  |



### 2004 Tax equations

| Line in country table and intermediate steps | Variable name | Range | Equation                                       |
|--|---------------|-------|--|
| 1. Earnings                                  | earn          |       |  |
| 2. Allowances:                               |               |       |  |
| Basic  | basic_allce   | B     | basic_al                                       |
| Spouse                                       | spouse_allce  | P     | IF(earn_spouse>basic_al, 0, Married*spouse_al) |
| Social security contributions                | SSC_al        | B     | SSC  |
| Total  | tax_al        | B     | basic_allce+spouse_allce+SSC_al                |
| 3. Credits in taxable income                 | taxbl_cr      | B     | 0  |
| 4. CG taxable income                         | tax_inc       | B     | Positive(earn-tax_al)                          |
| 5. CG tax before credits                     | CG_tax_excl   | B     | tax_rate*tax_inc                               |
| 6. Tax credits :                             | tax_cr        | P     | (earn>=min_wage*minwage_mult)*Children*tax_cr  |
| 7. CG tax                                    | CG_tax        | B     | CG_tax_excl-tax_cr                             |
| 8. State and local taxes                     | local_tax     | B     | 0  |
| 9. Employees' soc security                   | SSC           | B     | earn*SSC                                       |
| 11. Cash transfers                           | cash_trans    | J     | Children*transf_1                              |
| 13. Employer's soc security                  | SSC_empr      | B     | earn*SSC_empr                                  |

Key to range of equation:

B calculated separately for both principal earner and spouse.

P calculated for principal only (value taken as 0 for spouse calculation).

J calculated once only on a joint basis.

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## Part IV

**Country Details, 2004**

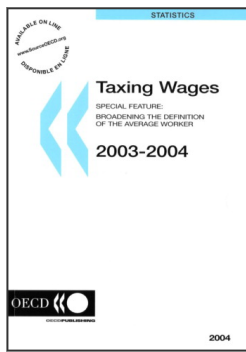
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