

Slovak Republic

This chapter includes data on the income taxes paid by workers, their social security contributions, the family benefits they receive in the form of cash transfers as well as the social security contributions and payroll taxes paid by their employers. Results reported include the marginal and average tax burden for eight different family types.

Methodological information is available for personal income tax systems, compulsory social security contributions to schemes operated within the government sector, universal cash transfers as well as recent changes in the tax/benefit system. The methodology also includes the parameter values and tax equations underlying the data.

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The tax/benefit position of single persons

	Wage level (per cent of average wage)	67	100	167	67
	Number of children	none	none	none	2
1. Gross wage earnings		6439	9658	16097	6439
2. Standard tax allowances					
Basic allowance		3559	3559	3559	3559
Married or head of family		0	0	0	0
Dependent children		0	0	0	0
Deduction for social security contributions and income taxes		863	1294	2119	863
Work-related expenses					
Other					
	Total	4422	4853	5679	4422
3. Tax credits or cash transfers included in taxable income		0	0	0	0
4. Central government taxable income (1 - 2 + 3)		2017	4805	10418	2017
5. Central government income tax liability (exclusive of tax credits)		383	913	1979	383
6. Tax credits					
Basic credit		0	0	0	0
Married or head of family		0	0	0	0
Children		0	0	0	486
Other (ETC)		0	0	0	0
	Total	0	0	0	486
7. Central government income tax finally paid (5-6)		383	913	1979	-103
8. State and local taxes		0	0	0	0
9. Employees' compulsory social security contributions					
Gross earnings		863	1294	2119	863
Taxable income					
	Total	863	1294	2119	863
10. Total payments to general government (7 + 8 + 9)		1246	2207	4099	760
11. Cash transfers from general government					
For head of family					
For two children		0	0	0	528
	Total	0	0	0	528
12. Take-home pay (1-10+11)		5193	7451	11998	6207
13. Employers' compulsory social security contributions		1687	2530	4173	1687
14. Average rates					
Income tax		6.0%	9.5%	12.3%	-1.6%
Employees' social security contributions		13.4%	13.4%	13.2%	13.4%
Total payments less cash transfers		19.4%	22.9%	25.5%	3.6%
Total tax wedge including employer's social security contributions		36.1%	38.9%	40.8%	23.6%
15. Marginal rates					
Total payments less cash transfers: Principal earner		29.9%	29.9%	28.7%	29.9%
Total payments less cash transfers: Spouse		n.a.	n.a.	n.a.	n.a.
Total tax wedge: Principal earner		44.4%	44.4%	42.8%	44.4%
Total tax wedge: Spouse		n.a.	n.a.	n.a.	n.a.

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The tax/benefit position of married couples

	Wage level (per cent of average wage)	100-0	100-33	100-67	100-33
	Number of children	2	2	2	none
1. Gross wage earnings		9658	12877	16097	12877
2. Standard tax allowances					
Basic allowance		3559	6347	7119	6347
Married or head of family		3559	771	0	771
Dependent children		0	0	0	0
Deduction for social security contributions and income taxes		1294	1726	2157	1726
Work-related expenses					
Other					
	Total	8413	8844	9276	8844
3. Tax credits or cash transfers included in taxable income		0	0	0	0
4. Central government taxable income (1 - 2 + 3)		1245	4033	6821	4033
5. Central government income tax liability (exclusive of tax credits)		237	766	1296	766
6. Tax credits					
Basic credit		0	0	0	0
Married or head of family		0	0	0	0
Children		486	486	486	0
Other (ETC)		0	50	0	50
	Total	486	537	486	50
7. Central government income tax finally paid (5-6)		-250	230	810	716
8. State and local taxes		0	0	0	0
9. Employees' compulsory social security contributions					
Gross earnings		1294	1726	2157	1726
Taxable income					
	Total	1294	1726	2157	1726
10. Total payments to general government (7 + 8 + 9)		1044	1955	2967	2442
11. Cash transfers from general government					
For head of family					
For two children		528	528	528	0
	Total	528	528	528	0
12. Take-home pay (1-10+11)		9142	11450	13658	10436
13. Employers' compulsory social security contributions		2530	3374	4217	3374
14. Average rates					
Income tax		-2.6%	1.8%	5.0%	5.6%
Employees' social security contributions		13.4%	13.4%	13.4%	13.4%
Total payments less cash transfers		5.3%	11.1%	15.1%	19.0%
Total tax wedge including employer's social security contributions		25.0%	29.5%	32.8%	35.8%
15. Marginal rates					
Total payments less cash transfers: Principal earner		29.9%	29.9%	29.9%	29.9%
Total payments less cash transfers: Spouse		28.3%	29.9%	29.9%	29.9%
Total tax wedge: Principal earner		44.4%	44.4%	44.4%	44.4%
Total tax wedge: Spouse		43.2%	44.4%	44.4%	44.4%

As from 1 January 2009, Slovakia has joined the Euro zone; the national currency became the Euro (EUR). In 2011, EUR 0.72 was equal to USD 1. In that year, the average worker earned EUR 9 658 (Country estimate).

1. Personal income tax system

1.1. Central government income taxes

1.1.1. Tax unit

The tax unit is the individual.

1.1.2. Tax allowances and tax credits

1.1.2.1. Standard reliefs

- **Basic relief:** an allowance for all taxpayers is set at 19.2 times the minimum living standard (MLS) for a basic adult as of 1 January 2011 (EUR 3 559.3). In 2011, the basic personal allowance for taxpayers with gross earnings net of employee social security contributions in excess of the threshold of EUR 18 538 per year ($18\,538 = 100 \times \text{MLS}$, which is approximately equal to an employee's monthly gross wage of EUR 1 773) is gradually withdrawn. If gross earnings net of employee social security contributions exceed EUR 18 538, the personal allowance is calculated as 44.2 times the minimum living standard minus 0.25 times gross earnings net of employee social security contributions. The basic personal allowance reaches 0 if the gross earnings net of employee social security contributions amount to EUR 32 775.2 per year (employee's monthly gross wage of approximately EUR 3 074.7). The value of the basic tax allowance cannot become negative.

The degressive tax allowance is taken into account only once a year (when the tax return is filed or when the annual clearing is performed). Monthly tax prepayments during the year are therefore not affected.

- **Marital status relief:** an additional allowance is given to the principal earner in respect of a spouse living in a common household if the spouse earns no more than EUR 3 559.3. As from 1 January 2007, the value of the spouse allowance depends on the gross earnings net of employee social security contributions of both principal and spouse.

If the principal's gross earnings net of employee social security contributions in 2011 are lower or equal to EUR 32 775.2 ($= 176.8 \times \text{MLS}$) and the spouse's gross earnings net of employee social security contributions are lower than 3 559.3, the spouse allowance is calculated as the difference between 19.2 times MLS and the spouse's gross earnings net of employee social security contributions. If the gross earnings net of employee social security contributions of the spouse exceed 3 559.3, the spouse allowance is 0. If the principal's gross earnings net of employee social security contributions exceed EUR 32 775.2 ($= 176.8 \times \text{MLS}$), the spouse allowance is calculated as 63.4 times MLS minus 0.25 times the principal's gross earnings net of employee social security

contributions. This amount is reduced by the spouse's gross earnings net of employee social security contributions. The value of the spouse allowance cannot become negative. The degressive tax allowance is taken into account only once a year (when the tax return is filed or when the annual clearing is performed). Monthly tax prepayments during the year are therefore not affected.

- *Relief for children*: the prior allowance for children has been replaced by a non-wastable tax credit as from January 2004. As from July 2007, the monthly tax credit is indexed as result of a new indexation rule. The tax credit is automatically indexed by MLS growth and is effective as from the 1st July when also the new amount of MLS comes into force. During the period from 1st January to 30 June 2011 monthly tax credit was EUR 20.02 per child, from 1 July 2011 the amount of tax credit was EUR 20.51 (the annual amount was EUR 243.18). The tax credit for each dependent child is deducted from the tax liability; if the credit exceeds the tax liability, the excess will be paid to the taxpayer. In order to receive this credit, the parent must annually earn at least 6 times the minimum monthly wage, which for 2011 is set at EUR 317 (the total annual earnings must therefore be at least EUR 1 902). The credit can be taken only by one partner. It can be taken by one partner for part of the tax period (year) and by the other partner for the rest of the tax period (year); this choice will have to hold for all dependent children (for the purposes of this Report, it is assumed that the credit is claimed by the principal wage earner).
- *Relief for social and health security contributions*: employee's social security contributions (see Section 2.1) are deductible for income tax purposes.

1.1.2.2. Main non-standard tax reliefs applicable to an average wage worker

- Supplementary pension insurance, special-purpose savings and life insurances repealed as from January 2011.

1.1.2.3. Non-wastable tax credit: employee tax credit (ETC/zamestnanecká prémie)

The employee tax credit is effective as from 1 January 2009 and is targeted at low-income workers whose wages are subject to the payment of social and health insurance contributions. The amount of tax credit depends upon the employee's earnings and the number of months worked.

In order to receive this tax credit, the employee must fulfil the entitlement criteria which are:

- the employee's earnings over the tax period must be at least 6 times higher than the minimum wage, which for 2011 is set at EUR 317 per month;
- the employee must have worked for at least 6 months over the tax period (the conditions of month worked is considered to be fulfilled when only one hour is worked during that month).

The ETC is a non-wastable tax credit as is the child tax credit. The value of the ETC depends on the level of the employee's earnings. If earnings are between at least 6 times of the minimum wage and 12 times of the minimum wage, the credit is calculated as 19 per cent of the difference between the basic allowance (EUR 3 559.3) and the tax base (gross earnings net of employee SSC), evaluated at the level of the minimum wage (EUR 3 294.36). If earnings exceed 12 times the minimum wage, then the ETC is calculated as 19 per cent of the difference of the basic allowance and the tax base (gross earnings net of employee

SSC). The tax credit is zero when the tax base (gross earnings net of employee SSC) is equal to or higher than the basic allowance.

The highest value of the employee tax credit amounts to EUR 50.34 per year; this maximum value is received by employees with income between one half of the minimum wage and the full minimum wage, provided that the employee has worked for 12 months. As the employee tax credit is designed to benefit working individuals, its amount is adequately reduced for employees that have worked less months in the calendar year. Due to extensive paperwork it was decided that the tax credit will be paid within the framework of the annual clearing of the tax advances or when a tax return is filed.

1.1.3. Tax schedule

From 1 January 2004, the progressive personal income tax rates were abolished and replaced by a flat tax rate of 19 per cent.

1.2. State and local income tax

No separate state and local income tax exist. Out of the total revenue from the personal income tax (PIT) collected by the State, 70.3 per cent of PIT is transferred into the budget of the municipalities and 23.5 per cent of PIT is transferred into the budget of the self-governing regions. The remaining revenue of the state budget is 6.2 per cent of PIT.

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 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

There are maximum assessment bases MSSAB (maximum threshold for contributions to apply) that apply to social security contributions. From 2004, these MSSAB are no longer fixed values but depend upon the average wages (AW).

The latest amendment of the Social insurance Law, which is valid from 1st January 2011, adjusted formulae for calculation of MSSAB for retirement, disability and unemployment insurance. Average monthly MSSAB for retirement, disability and unemployment insurance are calculated as: $4 \times AW(t - 2)$. Average monthly MSSAB for sickness insurance is calculated as: $1.5 \times AW(t - 2)$. Average monthly MSSAB for health insurance is calculated as: $3 \times AW(t - 2)$. Where $AW(t - 2)$ is the average wage two years ago. The average wage (AW) is determined by the Statistical Office of the Slovak Republic – for 2009, it is EUR 744.50 per month.

2.2. Employers' contributions

The total contribution for employers is 35.2 per cent of gross wages and salaries. The contribution comprises the health insurance contribution (10 per cent of gross wages and salaries) and the social insurance contribution (25.2 per cent). The social insurance rate reflects contributions to sickness insurance (1.4 per cent), disability insurance (3 per cent), retirement insurance (14 per cent), the Guaranteed Fund (0.25 per cent), accident insurance (the same accident insurance rate of 0.8 per cent is applied to all employers until the end of 2011; the rate will range from 0.3 to 2.1 per cent as from 2012 depending on the category of risk associated with the employer's activities), for unemployment (1 per cent) and to the Reserve Fund (4.75 per cent). All contributions are rounded down on two decimal places.

Since January 2005, Slovakia has introduced the privately managed *fully funded pillar*. This means that a given proportion (9 percentage points) of social contributions paid by the employer for retirement insurance flows directly to the private pension funds and not to the Social insurance agency as in previous years. Private pension funds are treated outside of general government; these contributions are therefore not taken into account in the calculations of average and marginal tax rates. For the purposes of this Report, *the total contribution rate for employers is then 26.2 per cent*.

The MSSAB also applies to the employer's SSC. The next table presents the annual values of MSSAB:

	Formula for MSSAB	Value of MSSAB
Health Insurance	$3.0 \times AW(t - 2)$	26 802.00
Social Insurance		
<i>of which:</i>		
Sickness	$1.5 \times AW(t - 2)$	13 410.00
Retirement	$4.0 \times AW(t - 2)$	35 760.00
Disability	$4.0 \times AW(t - 2)$	35 760.00
Unemployment	$4.0 \times AW(t - 2)$	35 760.00
Accident		No limit
Guarantee fund	$1.5 \times AW(t - 2)$	13 410.00
Reserve fund	$4.0 \times AW(t - 2)$	35 760.00

1. Official MSSAB in 2011 are slightly lower due to rounding issues.

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 EUR 22.01 per month. In January 2008, an extra allowance for dependent children whose parents are not eligible for the non-wastable child tax credit was introduced. The monthly amount of this allowance is EUR 10.32. For the purpose of the tax wedge calculations this allowance is not relevant, as only non-workers and taxpayers with annual earnings lower than six times the minimum monthly wage (which is the condition for eligibility for the non-wastable child tax credit) are entitled to the extra allowance.

The non-wastable tax credit mentioned in Section 1.1.2.1 is part of the social support for 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 2011, these amounts are:

	MLS monthly (1.1.2011-30.6.2011)	MLS monthly (1.7.2011-31.12.2011)
First adult	185.38	189.83
Second adult	129.31	132.42
Child	84.61	86.65

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 allowance varies with the family type.

The benefits available to a family in material need (valid on the 1st January 2011) are:

- EUR 60.50 per month for an individual.
- EUR 115.10 per month for an individual with between one and four children.
- EUR 105.20 per month for a couple without children.
- EUR 157.60 per month for a couple with between one and four children.
- EUR 168.20 per month for an individual with more than four children.
- EUR 212.30 per month for a couple with more than four children.

If one family member is pregnant, the social benefits described above are increased by EUR 13.50. The entitlement for this additional benefit arises from the 4th month of the pregnancy and lasts until the child's age of 1 year (benefit for children until age of 1 year does not affect the calculations in this Report).

- activation allowance: EUR 63.07 per month – for people who become active either by accepting qualifying employment opportunities or participating in retraining courses;
- housing allowance: EUR 55.80 per month for individual in material need, EUR 89.20 for a household in material need (if household has more than 1 person);
- protection allowance: EUR 63.07 per month for an individual in material need where employment is not possible due to such circumstances as a disability or old age;
- health care allowance: EUR 2.00 per month.

4. Main changes in tax/benefit systems since 2010

The formulae for calculation of the basic and marital status relief has been changed (both were temporarily adjusted to lower the tax burden during 2009 and 2010). The automatic indexation of the formulae for the calculation of the basic and marital status reliefs was renewed. Also the formulae for calculation of the maximum assessment base have been changed. In 2011, the assessment base for social insurance and health insurance was broadened as some types of incomes were not subject to social and health insurance payments.

5. Memorandum items

5.1. Identification of AW and valuation of earnings

The Ministry of Finance of the Slovak republic estimates the average earnings of the AW based on the data supplied by the Statistical Office of the Slovak republic, Labour Force Survey data (LFS). Earnings data covering also self-employees are based on average wage definition including industries falling under categories B to N inclusive, with reference to International Standard Industrial Classification of All Economic Activities, Revision 4.

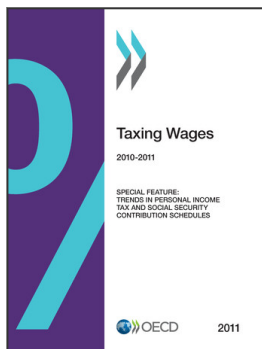
2011 Parameter values

			Country estimate
	Ave_earn	9 658	
Minimum living standard (MLS) 2011	basic_adult	185.38	
	basic_adult1	129.31	
	basic_child	84.61	
Basic allowance	basic_al_mult	19.2	
	basic_al	3 559.29	
	basic_al_mult1	100	
	basic_al_mult2	44.2	
	basic_al_redn	0.25	
Spouse allowance	spouse_al_limit	3 559.29	
	spouse_al_mult1	176.8	
	spouse_al_mult2	63.4	
	spouse_al_redn	0.25	
Income tax rate	tax_rate	0.19	
Tax credits – nonwastable	tax_cr	243.18	
	min_wage	317	
	minwage_mult	6	
	etc_thresh	3 294.36	
Employee social security contributions	SSC_rate	0.08	
	SSC_sick	0.014	
	SSC_ret	0.04	
	SSC_dis	0.03	
	SSC_unemp	0.01	
	SSC_health	0.04	
	SSC_children	0	
Employer social security contributions	SSC_empr	0.1375	
	SSC_empsick	0.014	
	SSC_empret	0.05	
	SSC_empdis	0.03	
	SSC_empunemp	0.01	
	SSC_emphealth	0.1	
	SSC_gua	0.0025	
	SSC_acc	0.008	
	SSC_fund	0.0475	
Maximum assessment base	MSSAB	35 760	
	MSSAB_health	26 802	
	MSSAB_sick	13 410	
	MSSAB_gua	13 410	
	MSSAB_fund	35 760	
Cash transfers	transf_1	264.12	
	transf_indiv	726.00	
	transf_indiv_child	1 381.20	
	transf_couple	1 262.40	
	transf_couple_child	1 891.20	
	transf_hous_indiv	669.60	
	transf_hous_couple	1 070.40	
	transf_activ	756.84	
	transf_health	24.00	

2011 Tax equations

Line in country table and intermediate steps	Variable name	Range	Equation
1. Earnings	earn		
2. Allowances:			
Basic	basic_allce	B	IF(earn-SSC<=basic_al_mult1*basic_adult, basic_al,MAXA(basic_al_mult2*basic_adult-basic_al_redn*(earn-SSC),0))
Spouse	spouse_allce	P	Married*Positive(IF(earn Princ-SSC Princ<=spouse_al_mult1*basic_adult, IF(earn_spouse-SSC_spouse<=spouse_al_limit, (basic_al_mult*basic_adult)-(earn_spouse-SSC_spouse),0),spouse_al_mult2*basic_adult-spouse_al_redn*(earn Princ-SSC Princ)-(earn_spouse-SSC_spouse)))
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:			
Employee tax credit	etc_cr	B	IF(earn>=min_wage*minwage_mult, tax_rate*Positive(basic_al-MAX(etc_thresh, earn-SSC)), 0)
Children	child_cr	P	(earn>=min_wage*minwage_mult)*Children*tax_cr
Total	tax_cr	B	etc_cr+child_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	MINA(earn,MSSAB)*(SSC_rate)+ MINA(earn,MSSAB_sick)*SSC_sick+ MINA(earn,MSSAB_health)*SSC_health
11. Cash transfers	cash_trans	J	Children*transf_1+Positive(IF(0.75*((earn-SSC-CG_tax_excl)/12)<(basic_adult+Married*basic_adult1+Children*basic_child); ((1-Married)*(IF(Children>0;transf_indiv_child;transf_indiv))+Married*(IF(Children>0;transf_couple_child;transf_couple))+IF((Married+Children)>0;transf_hous_couple;transf_hous_indiv))+((1+Married+Children)*transf_health)+IF(A7>0;transf_activ;0)+IF(B7>0;transf_activ;0)-0.75*(earn-SSC-CG_tax_excl));0))
13. Employer's soc security	SSC_empr	B	MINA(earn,MSSAB)*SSC_empr+ MINA(earn,MSSAB_sick)*SSC_empsick+ MINA(earn,MSSAB_health)*SSC_emphealth+ earn*SSC_acc+ MINA(earn,MSSAB_gua)*SSC_gua

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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