New Transaction Tax in Slovakia: Implications (Not Only) for Foreign Investors

DEFINITION AND REASONS FOR THE INTRODUCTION OF THE TRANSACTION TAX

The Financial Transaction Tax ("**FTT**") is a tax effective from 01.01.2025 (tax liability commences on 01.04.2025), which applies to financial transactions where funds are withdrawn from the taxpayer's bank account.

The Slovak Republic ("**SVK**") is introducing this tax as part of a broader programme aimed at stabilising public finances and reducing the budget deficit.

The Government of the Slovak Republic ("the **Government**") sees the FTT as a tool to generate additional revenue for the State and at the same time to make tax collection more efficient. Its introduction is expected to generate approximately EUR 700 million per year for the budget.

Based on the Explanatory Memorandum, the main objective of the implementation of the FTT is to promote electronic payments that are more transparent and easier to control, which is expected to reduce the level of tax evasion and illegal financial transactions. Electronic transactions are considered a more reliable method for monitoring financial flows and, consequently, provide a more effective tool for financial institutions and tax authorities to ensure compliance with tax regulations.

OBLIGED ENTITIES AND TRANSACTIONS SUBJECT TO FTT

For the purposes of the FTT, **a taxpayer** is considered to be a legal entity, an entrepreneur as a natrual person, and an organisational unit of a foreign entity that is a client of a payment service provider carrying out financial transactions ("the **provider**").

The taxpayer is the provider established in the domestic territory, the provider's establishment located in the domestic territory, its establishment, the taxpayer without an establishment in the Slovak Republic, the taxpayer with recharged costs related in the domestic territory, as well as the taxpayer who carries out transactions on a non-transaction account.

The basic obligation of a taxpayer who is an entrepreneur will be to set up a **transaction account** in a bank operating in Slovakia. This account will be exclusively for business activities and all taxable transactions related to the business will have to be made through it, regardless of whether they claim flat-rate expenses or actual expenses. For accounts held in Slovak banks, the new FTT will be calculated and remitted by the bank on behalf of the taxpayer. If the foreign investor uses accounts held abroad, it must arrange for the calculation, reporting and payment of the FTT itself.

All debit transactions where funds are debited from an account are subject to FTT. It also covers the recharged cost related to the execution of a financial transaction relating to the taxpayer's domestic activity. These transactions include payments of invoices, wages to employees, loan repayments and other financial transactions directly related to the business activity.

The use of payment cards linked to a transaction account is also included under FTT.

The tax does not cover tax payments and contributions to the second and third pension pillars, as well as compulsory social insurance and health insurance payments. Transactions related to the payment of taxes and other statutory obligations will be credited to an account held with the Treasury.

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FTT RATES AND LIMITS

The tax base is the amount of funds debited from the taxpayer's account in a financial transaction. A taxpayer with domestic related cost recharges (SVK) for the tax base is determined on the basis of the recharged costs related to the execution of the transaction that relates to the taxpayer's domestic activity. If the financial transaction is made from a transaction account held in a currency other than EUR, the amount shall be converted into EUR for the purpose of determining the tax base using the reference exchange rate announced by the ECB or the NBS, valid on the date of the transaction.

The FTT sets the basic transaction tax rate at 0.4%, up to a maximum of EUR 40 per financial transaction, i.e. for financial transactions of EUR 10,000 or more, the tax is a flat rate of EUR 40. This does not apply to cash withdrawals. The FTT sets the rate at 0.4% of the tax base, which is the amount of the recharged costs related to the financial transaction relating to the taxpayer's domestic activity.

A higher rate of 0.8% applies to both cash withdrawals from your account and ATM withdrawals, and the **maximum limit does not apply** to these transactions. The FTT therefore increases directly in proportion to the amount of cash withdrawals. In addition, it should be noted that when cash is withdrawn at a bank branch, the bank may also charge **its own cash transaction fees**, which may increase the overall cost to the taxpayer.

In addition to the above, legal entities and entrepreneurs will be obliged to pay an annual flat fee of EUR 2 for each payment card linked to a transaction account, regardless of the number or amount of transactions made with the payment card

EXEMPT TRANSACTIONS

The law contains several important exemptions that exempt certain transactions from the obligation to pay FTT. Among the most important exemptions is the exemption of inter-bank transactions between the taxpayer's own accounts, if these accounts are held with the same bank. This means that payment transactions between the taxpayer's accounts, as long as they are both held in an identical bank, will not be subject to FTT.

FTT ENFORCEMENT AND OBLIGATIONS OF FOREIGN INVESTORS

Financial institutions, especially banks operating in Slovakia, play a key role in the implementation of the FTT. The law obliges them to monitor, record and regularly provide information on all payment transactions subject to this tax directly to the tax administrator. This means that if a taxpayer (foreign investor) sets up a transaction account in a Slovak bank, the bank will automatically calculate and remit the FTT. This automated data management not only reduces the administrative burden for the investor, but also minimises the risk of errors in reporting transactions, which is advantageous for foreign investors in terms of compliance and tax audits. The bank, as the taxpayer, is responsible for the correctness of tax calculation, tax collection and tax remittance.

However, if a foreign investor does not use a transaction account in a bank operating in Slovakia for a financial transaction, he or she will de facto be obliged to document all transactions subject to taxation at his or her own expense and responsibility. **The investor then becomes at the same time a taxpayer**, which may represent a significant administrative burden for the investor. In addition to keeping detailed records of each transaction, he must ensure that all the necessary information is correctly reported to the tax authorities and the tax is duly paid by the end of the month following the tax period (the tax period is calendar month).

If this taxpayer omits any financial transaction or registers it incorrectly, the tax administrator may find this out during a tax audit, which will lead to consequences, especially the imposition of penalties. Failure to comply with the obligations related to the FTT may entail risks, as tax arrears will be recovered in tax enforcement proceedings. The establishment of a transaction account in a bank operating in Slovakia, therefore, seems to be a step that minimizes the risks associated with misconduct in the FTT.

RECOMMENDED PREPARATORY STEPS

First of all, we recommend setting up a **transaction account** in a bank operating in Slovakia by 31.03.2025. This account will be used exclusively for business transactions and any transaction subject to FTT will be carried out through this account.

To minimise the impact of the FTT on their business, taxpayers should consider optimising their financial operations. Among other things, it is recommended to reduce the use of cash, as a higher rate of 0.8% applies to cash withdrawals. It is preferable to give preference to electronic payments, which are taxed at a lower rate of 0.4%.

Working with local legal (or tax) advisors is important for taxpayers. Experts can help them implement the new rules correctly and ensure that they comply with legislative requirements, reducing the risk of additional penalties or misreporting of transactions.

TRANSACTIONS FROM ABROAD

The draft law explicitly states that the FTT applies to all transactions related to business activities in Slovakia, regardless of where the bank account is kept. An attempt to circumvent the tax through foreign accounts would still be subject to taxation if the transactions are linked to activities in Slovakia.

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The law contains strict rules to detect such practices. The tax administrator may request foreign authorities and cooperation in detecting tax evasion on the basis of international information exchange agreements. The Slovak Republic is part of multilateral agreements within the OECD and the EU which allow the exchange of information on financial transactions between countries.

An entrepreneur who attempts to evade this obligation may face penalties under the provisions of the Tax Code governing penalties, and tax arrears will be recovered under the tax execution procedure.

CONCLUSION

Although the aim of introducing the FTT is to stabilise public finances and increase transparency of financial flows, its adoption poses a number of fundamental problems. Instead of fostering a modern and digitalised economy, the FTT may paradoxically take investors back to the era of cash. Experience from other countries where the FTT has been introduced shows that businesses have started to make increased use of cash or alternative payment instruments. This trend may lead to a reduction in the transparency of financial flows and increase the risk of tax evasion, which is in direct contradiction to the original intention of the legislators.

A rate of 0.4% on each transaction may seem low, but for businesses that process a large number of banking transactions every day, it can mean a noticeable increase in costs. Moreover, exemptions from the tax are limited, and there is insufficient support for strategic investments that should be exempt from the FTT. Without these measures, Slovakia may find itself in a position where investors start looking for alternative markets with a lower tax burden.

Author's note: this article is based on the adopted law draft and the explanatory memorandum, with all information up-to-date as of the date of its preparation, 10.10.2024.

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