

An abstract, 3D-style geometric pattern of interconnected blue cubes and lines, resembling a molecular or network structure, is positioned in the upper right background of the page.

Slovakia

Taxation

FUNDS AND FUND MANAGEMENT 2010

3.0 Taxation

Please note that information in this survey address general matters of fund management in the Slovak Republic and should not be regarded as a basis for decision making in specific circumstances.

3.1 Taxation of funds

Mutual funds are not legal entities and are not registered for corporate income tax. Only investment companies have this obligation. The income of mutual funds is not subject to corporate income tax.

The scope of securities that can be acquired in the portfolio of a mutual fund is governed by the Act No. 594/2003 Coll. on collective investment as amended. In general, mutual funds are allowed to invest into securities such as bonds, shares, participation certificates, treasury bills, deposit certificates, or financial derivatives provided they meet certain requirements. In general, these provisions aim to prevent the fund managers from investing in low-quality securities. Special funds are also permitted to invest into real estates.

Based on Slovak income tax legislation the income of a mutual fund from bonds, participation certificates, t-bills and deposit certificates, and other securities as well as interest from bank accounts is not subject to tax at the level of the fund.

According to Slovak tax legislation yields from bonds, participation certificates, T-bills, and deposit certificates as well as the interest income from current account and deposit accounts is not subject to withholding tax if the recipient of such income is a mutual fund.

Dividend income is not subject to corporate income tax.

In general, distribution of yield to the owners of participation certificates is subject to 19 percent withholding tax. The tax is to be withheld by an investment company on behalf of the participation certificates' holder. The taxable base is reduced by the income of the investment company that has

already been taxed by the withholding tax and by received shares of profits that are not subject to tax any more.

Tax free income in Slovakia includes:

- yields from Slovak governmental bonds issued and registered abroad until 28 February 2009 (according to the Amendment No. 60/2009 Coll. of the Slovak Income Tax Act);
- mortgage bonds issued before 31 December 2003;
- interest income and other income from securities sourced in the Slovak Republic remitted to a legal entity who is a tax-resident in other EU Member State and is final beneficiary of such payment or to its permanent establishment which is localized in EU Member State and is final beneficiary of such payment provided following conditions are met for the period of at least 24 consecutive months before the date of payment:
 - the payer of such income owns at least 25 percent of the share capital of the final beneficiary;
 - the final beneficiary of such income owns at least 25 percent of the share capital of the payer of the income; or
 - other legal entity having its registered seat in the EU Member State owns at least 25 percent of the share capital of the payer of such income and, at the same time, it owns 25 percent of the share capital of the final beneficiary of the income.

There is no transfer duty on overseas securities.

3.2 Taxation of resident unitholders/investors in a resident fund

Taxation of resident unitholders is based on income distributed by the fund as yields from participation certificates, income from redemption of participation certificates, or on income realized by unitholders from the sale of participation certificates of a mutual fund.

Yield from participation certificates is subject to 19 percent withholding tax. Tax is to be withheld by the investment company upon remitting the amount to the owners of participation certificates.

Undistributed income of a unitholder (according to the Amendment No. 660/2005 Coll. of the Slovak Income Tax Act) is not subject to a 19 percent withholding tax rate but it should be included in current value of participation

certificates and such a yield is subject to taxation at the redemption of the participation certificates.

Difference between income from redemption of participation certificate and its acquisition price is subject to 19 percent withholding tax in case of both individual and corporate unitholders (except if the recipient is mutual fund or Slovak or foreign securities broker holding participation certificates in his name for his/her clients; tax should be withheld by this securities broker).

It is possible to consider the tax withheld as a tax prepayment and thus include the income from participation certificates to the tax base.

Realized capital gains are subject to tax in Slovakia. Profit from sale of participation certificate (capital gain) is calculated as the difference between the sales price and the acquisition price. Gain from sale of participation certificate is subject to 19 percent income tax rate for companies. Gains from sale of participation certificate by an individual to a Slovak individual or entity is tax exempt. Gain from sale of participation certificate by an individual to a foreign individual or entity is subject to 19 percent income tax. The loss is not tax deductible. Difference between the current price of participation certificates and the sale price is tax exempt for individuals.

There is no inheritance and gift tax in Slovakia.

There is no wealth tax with respect to securities in Slovakia.

There are no tax incentives available for local funds in Slovakia.

3.3 Taxation of resident unitholders/investors in a non-resident fund

Slovak residents are taxed on their worldwide income. Consequently, they are also taxed on distributed foreign-source income and capital gains realized abroad.

Income of individuals from their participation certificates in non-resident funds is included in their taxable base that is subject to personal income tax at a rate of 19 percent.

Income of companies from their participation certificates in non-resident funds is included in their taxable base and is subject to corporate income tax rate of 19 percent.

In general, the tax withheld abroad in compliance with the respective double tax treaties is creditable.

There is no inheritance and gift tax in Slovakia.

There is no wealth tax with respect to securities.

3.4 Taxation of non-resident unitholders/investors in a resident fund

Distributed income of non-resident unitholders with respect to their investment in a resident fund is subject to tax.

In general, yields from participation certificates are subject to 19 percent withholding tax. Tax is withheld by the investment company upon paying the amount to the owners of participation certificates. This rate may be reduced as stated in the relevant provisions of double tax treaty or applicable EU regulation.

Undistributed income of a unitholder is not subject to a 19 percent withholding tax rate but it should be included in current value of participation certificates and such a yield is subject to taxation at redemption of participation certificates.

Difference between income from redemption of participation certificate and its acquisition price is subject to 19 percent withholding tax in case of both individual and corporate unit holders (except foreign securities broker holding participation certificates in his name for his clients; tax should be withheld by this securities broker).

Most double tax treaties provide protection against capital gain taxation in Slovakia in case the beneficiary is a Slovak non-resident.

There is no inheritance and gift tax in Slovakia.

3.5 Taxation of fund management/custodian companies

Investment companies are legal entities which are subject to corporate income tax. The tax base of an investment company that administers mutual funds shall only be determined as for the activity of investment company, not for the mutual funds managed by the investment company.

Income of investment companies and custodian companies is subject to 19 percent corporate income tax rate.

There is no special tax legislation with respect to investment companies.

3.6 Double tax agreements

Mutual funds can use the benefits of double tax treaties.

Slovakia has concluded double tax treaties with over 50 countries.

3.7 Other tax-favored vehicles

There are no other tax-favored vehicles available to mutual funds and investment companies.

3.8 Transfer taxes, stamp duty, capital duty

No capital duties are payable on the issue of units by a mutual fund in Slovakia.

There are also no transfer taxes payable on the purchase and sale of securities by a Slovak mutual fund in Slovakia.

3.9 Miscellaneous

None.

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