

# Slovakia

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## I. Summary

### A. Types of Organizations

The Slovak Republic is a civil law country with four primary forms of not-for-profit, nongovernmental organizations (NGOs):

- ☐ Associations;
- ☐ Foundations;
- ☐ Non-Investment Funds (NI Funds); and
- ☐ Not-for-Profit Organizations Providing Publicly Beneficial Services (NPOs).

Other forms of NGOs, which remain outside the focus of this Note due to their limited interactions with foreign grant makers, include: religious organizations, political parties, political movements, trade unions, interest associations, and associations related to certain professions (chambers).

## B. Tax Laws

Since 2004, an NGO's income from donations and inheritance is generally exempt from income tax. Other income from statutory activities, including membership fees, is also generally exempt. Grants covered by international agreements that are binding on the Slovak Republic are also exempt from income tax.

Certain NGOs are generally exempt from donations tax, including those whose statutory activities relate to health care, humanitarian assistance, social care, the operation of schools and other educational activities, science, physical fitness and sports for children and youth, and the protection of the environment.

Slovakia imposes a value-added tax (VAT), with a standard rate of 20% and a reduced rate of 10%, for books, pharmaceuticals, medical supplies, and some other products serving handicapped persons or general health care. Certain transactions are exempt from VAT, including those related to culture, sports, educational and scientific services and goods, as well as health and social care services and goods. Also exempt from VAT are services and goods rendered to members of associations as compensation for paid membership fees.

NPOs may request a return of the VAT paid for goods that are exported to countries outside the EU for the purpose of serving the NPO's statutory activities in those countries.

Finally, although taxpayers generally cannot deduct their donations to NGOs, natural and legal persons may assign up to 2% of their income tax to certain NGOs engaging in publicly beneficial activities.

## II. Applicable Laws

- Act No. 460/1992 [Constitution](#) of the Slovak Republic, most recently amended by Act No. 306/2014 ("Constitution") (English version available at [www.slovak-republic.org/constitution](http://www.slovak-republic.org/constitution))
- Act No. 83/1990 on Associating of Citizens ("Law on Associations"), as amended by [Act No. 274/2009](#) on Game Hunting
- [Act No. 34/2002 on Foundations and on the Change of Civil Code \("Law on Foundations"\)](#) as amended most recently by Act No. 352/2013 Part XI (adding the obligation to file the annual report to the Register of Annual Balance Sheets before June 1 of the next calendar year); and Act No. 463/2013, Part II (adding the obligation of external audit of annual balance sheets when a foundation's incomes exceeds € 200,000)
- [Act No. 147/1997 on Non-Investment Funds \("Law on NI Funds"\)](#) as amended most recently by Act No. 352/2013, Part V (adding the obligation to file the annual report to the Register of Annual Balance Sheets before June 1 of the next calendar year); and Act No. 162/2014, Part III (abolishing: monetary acquisitions from testaments (Article 19, 1c.), special treatment of public collections (Article 20), the limit of 15% for administration costs (Article 21,4), and constraints on the use of income from the public collection (Article 23, 3))
- [Act No. 213/1997 on Non-Profit Organizations Providing Generally Beneficial Services, most recently amended by Act No. 8/2010 and the Decision of the](#)

- [Constitutional Court of the Slovak Republic No. 5/2012 \(“Law on NPOs”\)](#) as amended most recently by Act No. 352/2013 Part VI [1] and Act No. 547/2011, Part IX (adding the obligation to file the annual report to the Register of Annual Balance Sheets before June 1 of the next calendar year)
- Act No. 13/2002 on Conditions of Transformation of Some Budgetary Organizations and Subsidiary Organizations to Certain Non-Profit Organizations Providing Generally Beneficial Services, as amended by Act No. 429/2003 ("Law on Transformation")
  - Act No. 595/2003 on Income Taxes (“Income Tax Law”), as substantially amended most recently by Act No. 547/2011, Part XVII (adding the obligation to prepare and file an annual balance sheet to the Register of Annual Balance Sheets); Act No. 463/2013 Part I (technical amendments); Act No. 333/2014 (introducing a limit to additional voluntary membership fees exempt from income tax to maximum 5% of the tax base or € 30,000, whichever is lower, including expenditures related to property maintenance to the list of legitimate tax-related expenditures; abolishing provisions paid to natural persons as legitimate tax related expenditure; and other technical amendments); Act No. 371/2014 (amendments related to crisis situations); and Act No. 463/2014 (technical amendments)
  - Act No. 554/2003, on Tax on Transfer and Conversion of Real Estate (“Real Estate Tax Law”) as most recently amended by the Act No. 382/2004 (abolishing the Act No. 318/1992, on the Heritage Tax, Tax on Donations and Tax on Transfer and Conversion of Real Estate); and Act No. 268/2014 (introducing a tax from temporary accommodation of natural persons)
  - Act No. 582/2004 on Local Tax and Local Dues for Communal and Small Construction Garbage (“Local Tax Law”), as recently substantially amended by Act No. 460/2011 (technical amendments); Act No. 548/2011 (technical amendments); Act No. 333/2014, Part VII (introducing certain upper limits for tax on land parcels enhanced by community self-government acts); and Act No. 361/2014 (amending tax from motorized vehicles)
  - Act No. 222/2004 on the Value Added Tax (“VAT Law”), most recently amended by Act No. 360/2013 Part I (technical amendments); and Act No. 218/2014 (new lowered limit of € 50,000 in order to use an overall monthly reporting form)
  - Act No. 365/2004 on Equal Treatment in Certain Matters and on Protection against Discrimination, which also amends and supplements certain other Acts (“Anti-Discrimination Act”), most recently amended by Act No. 32/2013 (excluding from acts of discrimination any temporary provisions enabling support of persons belonging to socially or economically handicapped groups or making simpler their access to education, jobs, culture, and health or social care or pursuing these goals in general; positive discrimination is legalized)
  - Act No. 465/2008 on Amendments of Laws in Connection with Introduction of the Euro Currency in the Slovak Republic
  - Act No. 448/2008 on Social Services, most recently substantially amended by Act No. 485/2013 (simplifying and regulating provision of social services to economically and socially handicapped persons and introducing social services for crisis intervention and prevention); Act No. 185/2014, Part VII (specifying details of social care in closed institutions); and Act No. 219/2014 (defining conditions of performing certain professional activities in the field of social care)
  - Act No. 455/1991 on Trade Regulation, most recently amended by Act No. 1/2014 (regulating sporting activities); Act No. 35/2014 (regulating water transportation); Act No. 58/2014 (regulating trade with explosives); Act No. 182/2014 (regulating trade with wood); Act No. 204/2014 (regulating health care products); and Act No. 399/2014 (regulating trade with emissions)

- Act No. 578/2004 on Providers of Health Care (“Law on Health Care Providers”), amended by Act No. 220/2013 Part IV (regulating payments for the provision of professional health care), and Act No. 185/2014 (specifying the conditions of performing certain professional activities in the field of health care)

## III. Relevant Legal Forms

### A. General Legal Forms

#### Associations

An association (in Slovak “*združenie*”) is a membership organization created by citizens to pursue common interests. Three citizens are required to found an association ([Law on Associations Section 6\(2\)](#)), and the association’s membership may include legal entities ([Law on Associations Section 2\(2\)](#)). No limitations are placed on the ability of foreign natural or legal persons to participate as members of associations.

There is no specific provision of the law that limits an association from engaging in either mutual benefit or public benefit activities. Associations are, however, prohibited from engaging in functions reserved to the government or public administration ([Law on Associations Section 5](#)), and may not be established for military activities or for purposes that violate the human rights of others ([Law on Associations Section 4](#)).

The Law on Associations does not apply to: political parties and movements; churches and religious organizations; commercial associations and companies established for the purposes of generating profit or safeguarding the work of certain professions; and any kind of game hunting organization. Separate laws regulate these types of organizations ([Law on Associations Section 1\(3\)](#)).

#### Foundations

A foundation (in Slovak “*nadácia*”) is an asset-based organization serving one or more public benefit purposes as defined in the law ([Law on Foundations Section 2\(3\)](#); see also Part III.B., below). Any legal or natural person may establish a foundation ([Law on Foundations Section 4\(1\)](#)). Foundations must maintain an endowment of at least €6,638, and founders must contribute a minimum of €663 to the endowment. The minimum endowment and minimum endowed contributions must take the form of monetary funds or real estate ([Law on Foundations Section 3\(2\)](#)). The share of the endowment in excess of €6,638, if any, may be composed of movables, securities, and other property rights that can be assigned a monetary value. The property forming the endowment cannot be donated, used as contribution to a business company, alienated or used as guaranty of the foundation’s liabilities, nor may it be used to secure the property of other persons ([Law on Foundation Section 30\(2\)](#)).

A foundation may also create and operate a trust (in Slovak “*nadačný fond*”) as an associated fund of collected or contributed monetary resources to support a specific

public benefit purpose. The trust is established by a written agreement between the foundation and a natural or juridical person or on the foundation's own decision. The trust is formed as an entity without legal personality; it has its own name, which must include the name of the foundation. It may have a specific purpose, as well as a specific period for which it has been established. The agreement establishing the trust must define the conditions upon which trust resources shall be used, as well as how trust assets will be distributed if the collection of contributions achieves its goal, if the collection fails, or if the purpose for which the trust has been established ceases to exist (Law on Foundations Section 13).

### **Non-Investment Funds (“NI Funds”)**

A Non-Investment (NI) fund (in Slovak “*neinvestičný fond*”) accumulates assets for publicly beneficial purposes, as defined in the law (Law on NI Funds Section 2(2)); see also Part III.B., below), or for humanitarian assistance benefiting individuals whose lives are at risk or who have suffered from a natural disaster ([Law on NI Funds Section 2\(1\)](#)). The NI fund's governing documents must indicate the types of persons who are eligible to receive benefits from the fund or the geographic region in which benefits will be distributed ([Law on NI Funds Section 6](#)). Any legal or natural person may establish an NI fund ([Law on NI Funds Section 3](#)) with a minimum founder's contribution of at least €66 ([Law on NI Funds Section 7](#)).

### **Not-for-Profit Organizations Providing Publicly Beneficial Services (NPOs)**

An NPO (in Slovak “*nezisková organizácia*”) is a special form of NGO under Slovak law that may be established by legal or natural persons or by a government agency to provide public benefit services, as defined in the law, to the public on equal terms and conditions (Law on NPOs Section 2(2); see also Part III.B., below). NPOs may not use any profit generated to benefit their founders, members of their governing bodies, or employees. NPOs do not have general members.

Under the Law on Transformation, the ministries of the Slovak Government and other central administration bodies may select subsidiary governmental organizations to be transformed into NPOs. These authorities must submit a transformation proposal to the Ministry of Management and Privatization of State Property. If the proposal is approved, the proposing central administration body may endow property to the newly founded NPO. The NPO can also receive property endowed by other interested parties, including: employees of the original governmental organization; medical and social care professionals; churches and other legal persons active in health care, social care, or humanitarian assistance, either on their own or through a NPO established by them. The rights, obligations, and liabilities of the original governmental organization are then transferred to the new NPO.

When the Slovak Republic establishes an NPO for the purpose of health care, the state administration is entitled to appoint and recall members of the Board of Trustees of the NPO in proportion to the property endowed to the NPO by the state.

## **B. Public Benefit Status**

*Associations:* The concept of public benefit does not appear in the Law on Associations, but, as discussed below, it is interwoven to a certain extent into the provisions of the tax

laws relating to public benefit activities (See also Income Tax Law Sections 12(3) and 13(1)).

*Foundations:* Foundations by law must serve public benefit purposes. These purposes include: the development and protection of spiritual and cultural values; humanitarian objectives, including the protection of health and human rights, especially of children and youth; protection and development of the environment; preservation of natural values; the development of science, learning, and sports; and individually targeted humanitarian assistance for individuals or groups who are in mortal danger or who have been affected by a natural disaster ([Law on Foundations Section 2\(3\)](#)).

*NI Funds:* A similar but somewhat shorter list of enumerated activities exists for NI funds ([Law on NI Funds Section 2\(2\)](#)). It does not include support for scientific development, but does include the development of social services.

*NPOs:* NPOs must render public benefit services. Permissible activities for NPOs include: health care, social assistance, humanitarian care, development, protection and presentation of spiritual and cultural values, protection of human rights and basic freedoms, education (including physical education), science, technological and information services, environmental development and preservation, regional employment and development services, and social welfare services including providing, administering, maintaining, and reconstructing dwellings ([Law on NPOs Section 2\(2\)](#)).

## IV. Specific Questions Regarding Local Law

### A. Inurement

*Associations:* There are no legal restrictions on the ability of associations to distribute assets or income to members, employees, or others associated with an organization. There are no provisions limiting administrative costs, reimbursement or compensation rates, or the distribution of remaining assets upon dissolution of an association. The Law on Associations explicitly stipulates the property settlement in case of an association's dissolution (Law on Associations Section 13).

*Foundations:* The Law on Foundations requires that foundations pursue public benefit purposes through the provision of financial and material support from the foundation's property. The foundation is also entitled to administer its property and property of contracted trusts, as well as be engaged in other activities in accordance with the public benefit purpose of the foundation ([Law on Foundations Section 2\(6\) and 2\(7\)](#)). Board members of foundations do not receive any remuneration for their services, but they may be reimbursed for travel and related expenses within the limits established in separate regulations ([Law on Foundations Section 21\(4\)](#)). With the exception of assistance related to natural disasters and provided from a specific trust created by the foundation for that purpose, the assets of a foundation may not be distributed to a founder, member of the



board of trustees or other body of the foundation, or any relatives thereof ([Law on Foundations Section 33\(4\)](#)).

*NI Funds:* Money or assets of NI funds may not be given to a founder or board member or any close relative thereof, or to a member of the body of a legal entity that made a donation to the NI fund ([Law on NI Funds Section 23\(4\)](#)). The administrative expenses of an NI fund may not exceed 15% of the fund's total expenditures, not including expenses for registration, fundraising, auditing, and verification of proper use of grants ([Law on NI Funds Section 21\(4\)](#)). Board members must perform their duties without any remuneration, except for reimbursement of travel and other expenses within limits established by separate legislation ([Law on NI Funds Section 17\(5\)](#)).

*NPOs:* The property of an NPO may be used only in accordance with the terms and limits set forth in its governing documents ([Law on NPOs Section 31\(1\)](#)). The earnings of an NPO from additional economic activities may not be used for the benefit of its founders, members of management, or employees because the only use allowed for these earnings is the furthering of development and securing of the public benefit services provided by the organization ([Law on NPOs Section 2\(1\)](#)). Participation on the board of trustees and supervisory board of an NPO may not be compensated, except for the reimbursement of travel and related expenses pursuant to limits in separate legislation ([Law on NPOs Sections 21\(5\) and 26\(3\)](#)).

## **B. Proprietary Interest**

*Associations:* The Law on Associations does not contain any explicit conditions regarding ongoing or residual proprietary interests of members or donors. In fact, members of mutual benefit associations may claim retrieval of their non-monetary contributions and membership dues when leaving the association, if the organization's governing documents provide for this.

*Foundations, NI Funds, and NPOs:* The laws regarding foundations, NI funds, and NPOs are all generally interpreted to preclude the existence of any proprietary interests in the organization's property. In certain cases, however, donors may have the ability to supervise the use of their donations. A foundation may not use received donations which exceed €331 for purposes different from those stipulated by the donor, without the donor's consent ([Law on Foundations Section 32](#)). Similar provisions, but without any threshold limit, exist regarding donations to NI funds ([Law on NI funds Section 23\(2\)](#)) and NPOs ([Law on NPOs Section 31\(2\)](#)). [2] These laws do not give a donor a right of reversion to property used contrary to his wishes. However, if there is no possibility of pursuing the original purpose of the donation, civil procedures are available to reclaim an unused or improperly used donation.

According to Act No. 578/2004 on Providers of Health Care, NPOs may also be established by the state, in which case the state endows the NPO with certain property assets, such as a building and equipment, from which the NPO is to be formed. In the case of termination of these state-established, health care-providing NPOs, all property endowed to the NPO must be returned to the state or at least compensated in proportion to its original value from the liquidation balance ([Law on NPOs Section 37\(b\)](#)), referring to Sections 100(b) and 100(c) of the Act No. 578/2004).

## **C. Dissolution**

*Associations:* There are few rules governing the dissolution of associations (Law on Associations Section 12). In general, it is permissible for an association to include into its by-laws a provision allowing, upon dissolution, the distribution of assets remaining in the liquidation balance to members (or any other persons), as determined by the body specified in the association's registered by-laws (or by court decision, in the case of a court-ordered dissolution).

*Foundations:* The endowment of a dissolving foundation must be transferred to another foundation registered according to the Law on Foundations. Remaining assets of the liquidation balance can be transferred to another foundation or to the municipality where the foundation is located. If the municipality accepts the assets, it must use them for a public benefit purpose ([Law on Foundations Sections 17](#) and [18](#)).

*NI Funds:* The assets of a liquidated NI fund may only be transferred to another NI fund or to a foundation ([Law on NI Funds Section 14\(3\)](#)).

*NPOs:* The assets of a dissolving NPO must be distributed to another NPO or to a foundation ([Law on NPOs Section 17\(3\)](#)). In the case of an NPO providing health care and established by the state, its termination may occur only with written consent of the Ministry of Healthcare, and all property endowed to the NPO must be returned to the state or at least compensated in proportion to its original value from the liquidation balance.

## D. Activities

### 1. General Activities

There are no provisions requiring or otherwise regarding associations' engagement in mutual benefit or public benefit activities. In contrast, foundations, NI funds, and NPOs are statutorily required to pursue public benefit activities.

NGOs in general may not be established for the purpose of undertaking economic activities, but they may engage in them, subject to limitations depending on the legal form, in order to supplement their statutory activities.

### 2. Public Benefit Activities

All forms of NGOs, including associations, may engage in public benefit activities. Foundations, NI funds, and NPOs, however, by law *must primarily* engage in public benefit activities. Each of the applicable laws describes public benefit activities somewhat differently, although there is significant overlap in the enumerated activities ([Law of Foundations Section 2\(3\)](#); [Law on NI Funds Section 2\(2\)](#); Law on NPOs Section 2(2)).

The Law on Foundations lists the following as public benefit purposes: development and protection of spiritual and cultural values; implementation and protection of human rights or other humanitarian goals; protection of the environment, preservation of natural values; protection of health; protection of the rights of children and youth; development of science, education, and physical education; and individually targeted humanitarian aid to natural persons or groups who are in mortal danger or who need immediate help after a natural disaster.



The Law on NI Funds adds to this list the provision of social care services as well as the protection and creation of the living environment. It does not include the development of science. (See also Part III.B., below.)

Finally, the definition in the Law on NPOs combines the two lists mentioned above, and adds two public benefit categories: services promoting regional development and employment policies; and services ensuring the development of housing, including administration, management, and reconstruction of existing accommodation facilities.

Slightly different definitions of public benefit purposes are used for the tax treatment of donors and beneficiaries of donations (see Income Tax Law Section 50(5)).

### **3. Economic Activities**

An NGO may not be established for the primary purpose of carrying out economic activities.

*Associations:* Although there is no explicit language to this effect in the Law on Associations, an association is generally considered to have the right to engage in economic activities, as long as economic activities are not its primary purpose.

*Foundations:* Foundations may not engage in economic activities except for administering a special trust given to their custody, renting real estate constituting a part of their endowments, and organizing cultural, educational, social and sporting events – provided that these activities support the public benefit purposes for which the foundation or trust were created ([Law on Foundations Sections 13\(4c\) and 29\(1\)](#)). The law also explicitly prohibits foundations from financing political parties and political movements, and providing financial support to a candidate for a public position (Law on Foundations Section 29(3)).

*NI Funds:* NI funds are prohibited from engaging in economic activities and must not finance activities of political parties and political movements ([Law on NI Funds Section 23\(1\)](#)).

*NPOs:* An NPO may engage in economic activities to the extent that these activities enable better utilization of its property and do not diminish the scope, quality, or accessibility of the public benefit services it provides. NPOs may not invest in the economic activities of other persons or serve as partners in any for-profit ventures (Law on NPOs Section 30(1) and (2)). Income from NPOs' entrepreneurial activities is taxed in the manner as that of commercial companies (Law on NPOs Section 30(3)).

## **E. Political Activities**

*Associations:* Associations may not be established for purposes for which political parties and political movements are organized according to a special law (Law on Associations Section 1(3a)). Otherwise, associations are not forbidden from supporting or opposing political activities, ideas, or candidates.

*Foundations, NI Funds, and NPOs:* Foundations, NI funds, and NPOs are expressly forbidden from using their assets to support political parties or political movements. Foundations and NPOs are also explicitly prohibited from financially supporting a candidate running for a public position (Law on Foundations Section 29(3); Law on NI Funds Section 23(1); Law on NPOs Section 30(4)). However, these prohibitions do not limit the general right of any NGO as a legal entity to engage in general political or lobbying activities, assuming that these activities are compatible with the public benefit purposes for which the NGO has been established.

## **F. Discrimination**

Section 12 of the Slovak Constitution expressly guarantees equal rights to all individuals without regard to sex, race, color of skin, language, faith, religious affiliation, political or other persuasion, ethnicity, or national or social origin. Ethnic minorities are given the right to disseminate information in their mother language, form associations and educational and cultural institutions, obtain education in their mother language and use their mother language in official dealings, and participate in decision-making concerning matters of their ethnicity or national minority ([Constitution Section 34](#)). Associations are explicitly prohibited from engaging in any activity that denies or restricts the civil rights of individuals on the basis of their nationality, sex, race, origin, political opinions, or religious affiliation ([Law on Associations, Section 4\(a\)](#)).

Act No. 365/2004 of May 20, 2004 on Equal Treatment and on Prevention against Discrimination, effective from 1 July 2004, as amended by Act. No. 85/2008, is the general anti-discrimination law covering discrimination as mentioned in EU Council directives 2000/43/EC, 2000/78/EC, and 76/207EEC. Its amendment by Act No. 32/2013 allows for “positive discrimination” in actions of public authorities that is aimed at eliminating social and economic handicaps, and creating more equal employment opportunities for groups of socially and economically handicapped persons.

According to leading local experts, these provisions preclude a private school or other educational institution from discriminating based on race or ethnicity. Any discrimination of this kind can be challenged through a civil court.

## **G. Control of Organization**

Legal entities may not establish citizens’ associations (as defined by the Law on Associations), but they may join them as members. The Constitution grants all foreigners the same rights and privileges under Slovak law as Slovak citizens, except in limited circumstances such as political parties ([Constitution Sections 12\(2\), 52, and 54](#)). Thus, foreigners could theoretically found an association. However, in practice it is recommended to do so together with local citizens or EU residents.

Foreign legal and natural persons are expressly permitted to establish foundations ([Law on Foundations Section 4\(1\)](#)), NI funds ([Law on NI Funds Section 3\(1\)](#)), and NPOs (Law on NPOs Section 5). It is possible that a Slovak foundation, NI fund, or NPO could be controlled to some degree by a representative of a for-profit entity who might be a member of the organization’s board of trustees. However, all these legal entities may not distribute their profit to members of the board nor to its statutory body (an administrator in the case of a foundation or a NI fund, or director in the case of the NPO). There exist also other provisions in the law preventing any profit-oriented misuse of the membership by the board of trustees.

The Ministry of the Interior is authorized to oversee the performance of a foundation in accordance with the public benefit purpose for which it has been established (Law on Foundations Section 37). As per this authority, the Ministry can evaluate a foundation's annual report and, if it identifies defects that are not remedied within a specific term, the Ministry may fine the foundation (up to €3319) or submit a motion to the court for its termination (Law on Foundations Sections 15(1), 36, and 37).

The Registration Office at the regional government level oversees the obligation of NI funds and NPOs to provide public benefit services (Act on NI Funds Section 26; Law on NPOs Sections 35 and 36). It does so by reviewing annual reports of the NI funds and NPOs and, if defects are identified and not remedied within a proscribed term, it can submit a motion to the court for the entity's termination.

The amended law on NPOs provides the state with the means to control any health care-providing NPO that was established by the Slovak Republic, through members of the organization's board of trustees or of the supervisory board, who are appointed by the Ministry of Health Care. If established together with other founders, who might be foreign persons, the proportion of the originally endowed property to the established NPO is decisive in determining the number of members of the board of trustees appointed by the state. In case of majority, the state can appoint the chairperson of the board of trustees (Law on NPOs Section 37(b); Law on Health Care Providers Section 100(b)). Until 2009, NPOs established by the Ministry of Health were also entitled to financial subsidies that had to be returned within 15 years (Law on NPOs Section 37(b); Law on Health Care Providers Section 100(a)).

## **V. Tax Laws**

The following section discusses relevant tax legislation, recognizing that taxes may affect the amount of the grant actually flowing to the grantee.

### **A. Tax Exemptions**

The current Law on Income Tax came into force in 2004 (Act No. 595/2003, replacing Act No. 366/1999); it has subsequently been amended. Under this law, the income of NGOs from donations and inheritance is generally not taxable (Income Tax Law Section 12(7b)). This includes the income generated from natural and juridical persons who redirect up to 2% of their income tax to a given NGO (Income Tax Law Section 12(7a) and 50). Moreover, voluntary membership fees paid by members of associations to protect their personal interests – in an amount not exceeding 5% of the tax base or €66,388, whichever is lower – are recognized as legitimate, deductible expenditures (Income Tax Law Section 19(3n)).

Associations, foundations, NI funds, and NPOs, as well as other NGOs, are generally exempt from taxation on income from their statutory activities (Income Tax Law Sections 12(3) and 13(1a)). In addition, associations are expressly exempt from income tax on income from regular membership fees (Income Tax Law Section 13(2b)).

The non-statutory economic activities of NGOs are taxed at the general income tax rate of 22% of the tax base – that is, income minus legitimate income-related expenditures (Income Tax Law Section 15b). In addition, any real estate transfer is taxed at 3% of the

property value as estimated by a licensed expert after subtracting the cost of the expert's fee (Real Estate Tax Law Section 5).

The Slovak Republic generally does not tax income from donations and inheritance (Income Tax Law Section 12 (7b)).

## **B. Deductibility of Charitable Contributions**

As mentioned above, the Income Tax Law provides donors with deductions for donations to qualifying NGOs, through a special procedure set forth in Section 50 of the Law. The special procedure allows every natural or legal person resident in Slovakia to allocate part of their paid income tax directly to one (in the case of a natural person) or more (in the case of a legal person) NGOs of their choice. The allocation may be directed to the following: associations, foundations, NI funds, NPOs, churches or church-run organizations, international organizations, the Slovak Red Cross, research and development organizations, or the Slovak Training and Education Development Fund (Income Tax Law Section 50(4)). The beneficiaries of these allocated funds and donations are required to spend the money for the following purposes: a) the support and protection of health care (specifically to provide medical prevention and to rehabilitate drug-addicted persons); b) the support and development of physical culture; c) the provision of social services; d) the preservation of cultural values; e) the support of education; f) the protection of human rights; g) the protection of the environment; h) the support of science and research; and i) the organization or mediation of voluntary activities (Income Tax Law Section 50(5)). [3] Both the beneficiary of the donation and the donor must have no outstanding debts relating to tax and dues payments. The NGOs that are allowed to benefit from the allocations must appear on a public list available on the Internet, and submit to the financial office documents proving that they have fulfilled all of their obligations, which includes obtaining certification from a notary public (Income Tax Law Section, 50(6)).

**For natural persons, the allocation to an NGO may be increased to up to 3% of the paid tax if he or she can prove that he or she has been involved in voluntary work for more than 40 hours during the tax period (Income Tax Law Section 50(1a) and 50(4)). Similarly, a legal person is generally limited to allocating 1.5% of its paid tax, but may allocate up to 2% if it can prove that it donated to NGOs an amount equal to or more than 5% of its paid tax to NGOs during the tax period (Income Tax Law Section 50(1b) and 50(4)).**

### **C. Value Added Tax**

The tax reform that took effect in 2003 unified the lower (reduced) rate of 14% and higher (standard) VAT rate of 20%, resulting in a single VAT rate of 19% effective from January 2004. In 2006, Act No. 656/2006 amended the VAT rate to 19% for most products and 10% for certain other goods, primarily goods related to health care. A temporary measure was introduced in 2011 (VAT Law Section 85(J)), which set the

upper VAT level at 20% effective from January 1, 2011; this measure shall remain in effect until the European Commission announces that the Slovak Republic's budget balance is lower than 3% of its GDP. VAT is also applied to certain services related to the transfer of titles to authors, patent rights, and the right to use tangible property unless provided free of charge to the beneficiary of a voluntary activity (VAT Law Section 9 (1)).

VAT exemptions include transactions involving: post office services; the delivery of human and health care services provided by state institutions or by a NPO, which applies the state regulated price list (with the exception of supplying pharmaceuticals and health supporting tools); social services; educational and training services; services related to sporting and physical exercise; cultural services; renting space for accommodation; and most financial or insurance services (VAT Law Sections 28-39). Services provided by churches, associations, political parties, and professional chambers in exchange for membership fees are also exempt from VAT, unless they can be considered as competitive on the service market (VAT Law Section 32).

An NGO, like any other legal entity, is required to register as a VAT taxpayer if its gross turnover for the past twelve calendar months exceeds €49,790 (VAT Law Section 4(1)). Legal entities that do not meet this threshold may apply to the Finance Administration to enter the VAT system and thereby be able to recover input VAT. Registration for VAT payment is required when a) the legal entity that is not a VAT payer obtains goods from a foreign country, and b) the total value of goods obtained within the calendar year exceeds €14,000 (VAT Law Section 7).

## **D. Import Duties**

Only items imported from countries not belonging to the European Economic Area are subject to import duties. All goods and services exempt from income tax are also exempt from import duties (see Part V. C., above). The European Commission is charged with determining and regulating import duties in case of imports from countries not belonging to the European Economic Area

## **E. Double Tax Treaties**

A double tax treaty was signed between the United States and the Slovak Republic in 1993.

# **VI. Knowledgeable Contacts**

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## **FOOTNOTES**

[1] Act No. 8/2010 introduced into Article 31 of Act No. 213/1997 on NPOs a new Section 3, which requires previous consent of the state for manipulations of property endowed by the State to the NPO. The Constitutional Court found this provision to be in conflict with the Constitution of the Slovak Republic.

[2] In the case of NPOs, the validity of any legal act concerning real estate that has been provided to the NPO by the state as its founder or co-founder, requires the previous written assent of the relevant state administration branch (Law on NPOs Section 31(3)).

[3] If the total income of an NGO from these tax allocation contributions exceeds €3,320, the NGO is obliged within 16 months to publish in the Official Journal of the Slovak Republic an overview of how the amount has been spent (Income Tax Law Section 50(13)).