Investment incentives
in Slovakia in 2008

BY PŘEMYSL MAREK

Introduction

Investment incentives have become a standard instrument to attract investors to the Slovak Republic. Slovakia, as a member state of the European Union, has committed to respect European legislation relating to state aid, which has recently changed considerably.

The investment incentives program in Slovakia, which aims to enhance regional development, is effective only until the end of this year and applications had to be submitted before September 30, 2007.

In August 2007, the Slovak government adopted a draft of the new Act on Investment Aid which was before the Slovak parliament when this magazine went to print. The provisions of this Act are expected to become effective on January 1, 2008.

In this article, we would like to highlight several legal issues relating to the new Act on Investment Aid which will most likely gain significance in 2008.

Forms and amounts of investment incentives

There are four forms of investment incentives to support opening investments and employment: (i) grants to acquire tangible or intangible fixed assets, (ii) corporate income tax relief, (iii) contributions for retraining staff hired for newly-created jobs and (iv) the transfer or exchange of real estate for a price lower than its market value.

The amount of investment incentives is determined by the unemployment rate in the respective region and the economic sector of the investment. Regions with an unemployment rate above the Slovak average and sophisticated projects with high added value are preferred.

Types of projects and criteria

To qualify for investment incentives, a project must fulfill certain statutory conditions which differ depending on the type of project. Industrial investments, technology centres, strategic services centres (e.g. centres for computer program development) and investments in the tourism sector may all qualify for incentives.

The main criteria for granting investment incentives in industrial investments is opening new or expanding or upgrading existing establishments, or fundamentally changing the production process, or purchasing an enterprise, for no less than Sk800 million (approximately €24 million), of which at least 50 percent must be financed from the investor's own capital. This amount can be reduced to Sk400 million (approximately €12 million) or even to Sk200 million (approximately €6 million) if the unemployment rate is above the Slovak average or is above the average for more than 50 percent, respectively.

For technology centres, the minimum amount of investment into a new or existing centre is Sk40 million (approximately €1.2 million) of which at least 50 percent must be financed from the investor's own sources, and at least 60 percent of all employees must have a university education.

Investors in strategic services centres soliciting investment incentives must invest more than Sk35 million (approximately €1 million) of which more than 50 percent must be covered by their own funds. At least 30 percent of employees must have a university education.

Conditions for investments in the tourism sector are similar to those required in industrial investments. However, a minimum amount of the investment expenses must be Sk500 million (approximately €15 million) which may be reduced to Sk100 million (approximately €3 million).

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Přemysl Marek

Procedural aspects

An investor is obliged to apply for investment incentives before starting any relevant activity. Applications are filed with the Slovak Ministry of Trade, which considers the application in cooperation with other ministries and provides an expert opinion.

If it is reasonable to expect that investment incentives will be granted, the Ministry of Trade delivers a written proposal on the investment incentives to the investor. It is essential to note that if any part of the project starts before the delivery of the proposal, no investment incentives can be granted subsequently.

Once the proposal has been delivered, an investor must apply again to the Ministry of Trade. The Slovak Government has the final say in whether investment incentives for a particular project will be granted or not. There is no statutory entitlement, however, to investment incentives.

Estimates

The Slovak Government estimates that the total amount of investment incentives granted in the next two years will reach Sk5.5 billion (approximately €164 million). This includes direct forms of investment incentives up to Sk1.3 billion (approximately €39 million) and indirect forms of investment incentives up to Sk4.2 billion (approximately €125 million).

Conclusion

Continuity in investment incentives has been guaranteed, as all decisions relating to investment incentives granted under the previous legislation remain unchanged even though the new Act on Investment Aid is going through the legislative procedure and it is difficult to predict what the final version will look like. However, it is obvious that the government's aim is to attract more sophisticated investment projects with high value added and research and development centres.

Přemysl Marek is a Partner and Attorney at Law with PETERKA & PARTNERS, Law Offices. This article is of an informative nature only. For more information go to www.peterkapartners.com.

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