

INVESTMENT INCENTIVES IN SLOVAKIA IN 2008

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

In August 2007, the Slovak government adopted a draft of the new Act on Investment Aid which was recently adopted by the Slovak parliament. The provisions of this Act should become effective on 1 January, 2008.

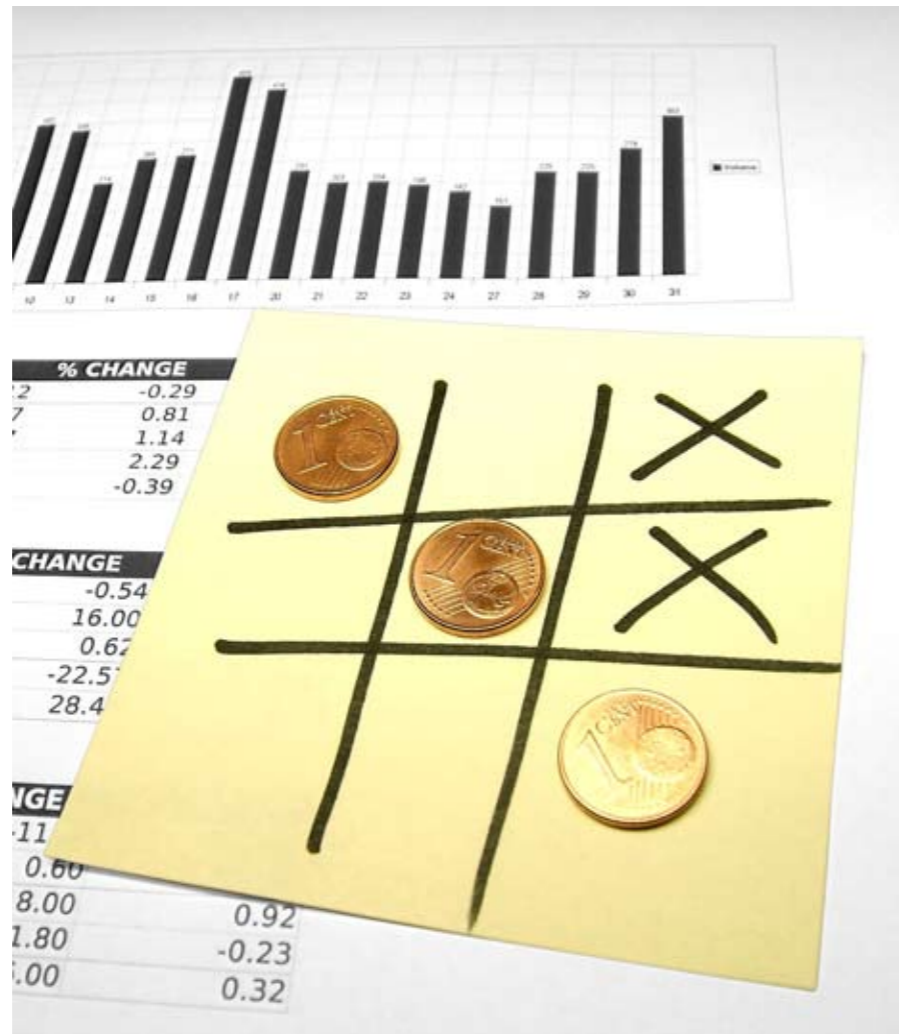
In this article, we would like to highlight several legal issues relating to the new Act on Investment Aid which will most likely gain significance in 2008.

FORMS AND AMOUNTS OF INVESTMENT INCENTIVES

Four forms of investment incentives to support opening investments and employment can be differentiated, i.e.: (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 fulfil certain statutory conditions which differ depending on the type of project. Industrial



investments, technologic centres, strategic services centre (e.g. centres for computer programme development) and investments in the tourist sector may all qualify for incentives.

The main criteria for granting investment incentives in industrial investments is the opening of a new or expanding or upgrading an existing establishment, or fundamentally changing the production process, or purchasing an enterprise and for no less than 800 million SKK (approximately €24 million) of which at least 50% must be financed

from the investor's own capital. This amount can be reduced to 400 million SKK (approximately €12 million) or even to 200 million SKK (approximately €6 million) if the unemployment rate is above the Slovak average or is above the average for over 50% respectively.

For technological centres, the minimum amount of investment into a new or existing centre is 40 million SKK (approximately €1.2 million) of which at least 50% must be financed from the investor's own sources and at least 60% of all employees must have a university education.

Investors in strategic services centres soliciting investment incentives must invest more than 35 million SKK (approximately €1 million) of which more than 50% must be covered by their own funds. At least 30% of employees must have a university education.

Conditions for investments in the tourist sector are similar to those required in industrial investments. However, a minimum amount of the investment expenses must be 500 million SKK (approximately €15 million) which may be reduced to 100 million SKK (approximately €3 million).

PROCEDURAL ASPECTS

An investor is obliged to apply for investment incentives before the commencement of 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 the any part of the project commenced 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

It is estimated by the Slovak Government that the total amount of investment incentives granted in the next two years will reach 5.5 billion SKK (approximately €164 million). This includes direct forms of investment incentives (grants to acquire tangible or intangible fixed assets and contributions for retraining staff hired for newly created jobs) up to 1.3 billion SKK (approximately €39 million) and indirect forms of investment incentives (corporate income tax relief and the transfer or

exchange of real estate for a reduced price) up to 4.2 billion SKK (approximately €125 million).

CONCLUSION

Finally, it should be noted that continuity in investment incentives is ensured as all decisions relating to investment incentives granted under previous legislation remain unchanged. However, it is obvious that the aim of the government is to attract more sophisticated investment projects with high value added and research and development centres.

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This article is of an informative nature only and under no account can it be considered to be a legal opinion. Should you need any further information on the issues addressed in this article, please contact PETERKA & PARTNERS, tel. +421 2 544 18 700, email: office@peterkapartners.sk; URL: www.peterkapartners.com

INVESTMENT: WHERE TO START

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