



State aid in the Slovak Republic – overview

The aim of state aid, regulated by both Slovak and European Communities law, is to promote the economic development of certain disadvantaged areas within the European Union, and in particular the Slovak Republic. This kind of state aid is known as national regional aid and is targeted on specific regions in order to redress regional disparities. Geographical specificity distinguishes regional aid from other forms of horizontal aid such as aid for research and development.

National regional investment aid is designed to assist the development of the most disadvantaged regions by supporting investment and job creation. It promotes expansion of the economic activities of enterprises located in less-favoured regions, in particular by encouraging the firms to set-up new establishments there.

Applicable legislation:

Key Slovak legislation:

- Act no. 231/1991 Coll. on State aid
- Act no. 561/2007 Coll. on Investment Aid (the “Act”),
- Act no. 595/2003 Coll. on Income Tax
- Act no. 5/2004 Coll. on the Employment Services

Key European legislation:

- Guidelines on National Regional Aid for the years 2007-2013 (2006/C 54/08)
- Commission Regulation (EC) No 1628/2006 of 24 October 2006 on the application of Articles 87 and 88 of the Treaty to national regional investment aid
- Commission Regulation (EC) No 1627/2006 amending Regulation (EC) No 794/2004 as regards the standard forms for notification of aid
- Commission Regulation (EC) No 1976/2006 amending the Regulation (EC) No 68/2001 on the application of Articles 87 and 88 of the Treaty on training aid

Intensity of aid

The intensity of aid must be adopted to take into account the nature and intensity of the regional problems. Therefore, in regions with extremely low GDP per capita in comparison to the European average, namely the eastern and central parts of Slovakia, the total amount of aid may reach up to 50% of the eligible expenses for the initial investment.

Intensity within the Slovak Republic

The regional map of state aid approved by the European Commission divides the Slovak republic into four regions: the region of Bratislava, Western, Central and Eastern Slovakia. The key indicator for the state aid ceilings is the gross domestic product per capita. Any other indicators are only of informative nature.

Based on the above, there are three, out of four, regions where the GDP per capita does not reach 75% of the European average.

Therefore, the regional map, as of 1 January 2007, states the following state aid ceilings:

- Central Slovakia 50% of the eligible costs
- Eastern Slovakia 50% of the eligible costs
- Western Slovakia 40% of the eligible costs

- Region Bratislava 10% of the eligible costs

In case of medium sized companies where the amount of investment does not exceed 50 mil EUR, the respective aid ceilings may be increased up to 10% and up to 20% for small sized companies.

Eligible expenses

The eligible expenses are expenditures on:

- land, buildings and plant/machinery, i.e. tangible assets, and
- licenses, know – how, trade marks, i.e. intangible assets, the amount of which may reach up to 50% of the total amount of the tangible assets, or
- salary for the period of two years for the newly created positions, including all social and health security expenses.

The recipient cannot include into the eligible expenses the tangible or intangible assets for which state aid was already granted.

It is important to note that even if the applicant applies for various types of incentives, the total amount of the aid granted, cannot exceed the above 50% of the total eligible expenses, except from the contributions for retraining of staff hired to newly created jobs.

Forms of investment projects

The new Act divides investment projects into four categories, that differ as to the subject of the investment, as well as the conditions that have to be met in order to be eligible for state aid.

- Industrial production
- Technological centers
- Centers of strategic services
- Tourism

Conditions to be met as per each type of project:

Industrial production:

- Opening of a new establishment, or an upgrade of an existing one for the purpose of launching a new production, or fundamental change in production process or purchase of an establishment from a company in difficulties,
- at least 80% of the aggregate revenues must be generated from the business specified in the investment incentives application,
- incurring not less than SKK 800,000,000 (approx. EUR 24,000,000) in the procurement of tangible or intangible fixed assets, of which at least SKK 400,000,000 (approx. EUR 12,000,000) must be financed from the own capital of the entity applying for the incentives,
- procuring of new technological equipment used for purposes of production in the amount of at least 60% of the total amount of tangible and intangible assets, and
- compliance with the environmental rules as to the environmental impact of the production.

Please note that in case of investments in a region where the rate of unemployment is higher than the Slovak average, the minimum amount of investment into the fixed assets is only SKK 400,000,000 (approx. EUR 12,000,000) and thus only SKK 200,000,000 (approx. EUR 6,000,000) of the investment has to be covered by own financial resources.

If the unemployment rate of the particular region is at least 50% higher than the Slovak average, the minimum amount of investment into the fixed assets is only SKK 200,000,000 (approx. EUR 6,800,000) and thus only SKK 100,000,000 (approx. EUR 3,400,000) of the investment has to be covered by own financial resources.

Technological centers:

Technological centers are establishments where the investor performs activities related to research, development and upgrade of procedures already used in production.

- Opening of a new establishment, or an upgrade of an existing one,
- incurring not less than SKK 40,000,000 (approx. EUR 1,360,000) in the procurement of tangible or intangible fixed assets, of which at least SKK 20,000,000 (approx. EUR 680,000) must be financed from the own capital of the entity applying for the incentives, and
- at least 60% of the employees must have university education.

Centers of strategic services:

These centers provide services targeted to international clients, with high added value, focusing mainly on software technologies and hi-tech with a significant level of employees with top qualification.

- Opening of a new establishment, or an upgrade of an existing one,
- incurring not less than SKK 35,000,000 (approx. EUR 1,190,000) in the procurement of tangible or intangible fixed assets, of which at least SKK

- 17,000,000 (approx. EUR 595,000) must be financed from the own capital of the entity applying for the incentives, and
- at least 30% of the employees must have university education.

Tourism:

A complex center is an establishment where at least three different services are provided. It may include e.g. lodging services, sport facilities or food and beverage services.

- Opening of a new establishment, or an upgrade of an existing one,
- Procuring of new technological equipment used for providing services in the amount of at least 40% of the total amount of tangible and intangible assets,
- incurring not less than SKK 500,000,000 (approx. EUR 17,000,000) in the procurement of tangible or intangible fixed assets, of which at least SKK 250,000,000 (approx. EUR 8,500,000) must be financed from the own capital of the entity applying for the incentives,
- at least 80% of the aggregate revenues must be generated from the business specified in the investment incentives application,
- compliance with the environmental rules as to the environmental impact of the establishment.

Please note that in case of investments in a region where the rate of unemployment is higher than the Slovak average, the minimum amount of investment into the fixed assets is only SKK 250,000,000 (approx. EUR 8,500,000) and thus only SKK 125,000,000 (approx. EUR 4,250,000) of the investment has to be covered by own financial resources.

If the unemployment rate of the particular region is at least 50% higher than the Slovak average, the minimum amount of investment into the fixed assets is only SKK 100,000,000 (approx. EUR 3,400,000) and thus only SKK 50,000,000 (approx. EUR 1,700,000) of the investment has to be covered by own financial resources.

Forms of aid

Investment incentives mean a public aid aimed to finance initial investments and to encourage to create new jobs in connection with such investment.

The incentives, under the new Act, may have the following form:

- Corporate income tax relief
- Contributions for the creation of new jobs
- Transfer of title to immovable property of the state or municipality at a price lower than standard market price
- Financial grant from the state budget

Under the previous act, the incentives could include also the contributions for retraining of staff hired to newly created jobs. Currently, these contributions fall within a separate legal regime.

The investor may choose one of the incentives or even all of them and is free to combine their amounts, subject to respecting the maximum intensity of the state aid that may be granted.

Tax relief

Investor who was granted investment incentives containing tax relief may claim a reduction of the tax reported in the tax return, subject to fulfillment of the condition on the intensity of aid as specified above.

It may be claimed up to the amount of the tax reported during not more than 5 consecutive years, starting from the one, in which the investment incentives were approved and other conditions were met, however not later than the third year after the approval.

Contributions for the creation of new jobs

The total sum of the contributions depends on the level of unemployment in the particular region.

The amount of aid granted for the creation of new jobs cannot exceed a certain percentage of the total salary costs (including all statutory contributions) for the person hired, calculated over a period of two years. The percentage is equal to the intensity allowed for investment in the region in question.

Therefore, if the investment takes place in the Western Slovakia, in the region where the maximum intensity of aid is 40%, the investor is eligible for the contribution of 40%.

Transfer of title to immovable property of the state or municipality

Granting this type of aid strictly depends on existence of a suitable premises or property for the particular type of production or activity.

Contributions for retraining of staff hired to newly created jobs

This type of incentives does not fall within the scope of the new Act, but is governed directly by the EC regulation.

Retraining and education divides into specific education type and general education type.

The total sum of aid granted cannot exceed 35% of the eligible expenditures in case of specific education and 60% of the eligible expenditures in case of general education.

Brief outlook on procedure of approving of the incentives

- The applicant submits the investment plan, including all required annexes and documentation, to the Ministry of Economy of the Slovak Republic (the “Ministry”).
- If the plan is complete and accurate, SARIO in order to examine whether or not the applicant is eligible for the state aid undertakes its detailed review.

- If the applicant appears to be eligible, SARIO prepares an expert opinion describing the business plan of the applicant, the total amount requested state aid and the potential income for the public budget and recommends to grant the state aid.
- Afterwards, the Ministry prepares an investment incentives offer as to the offered types and amounts of the incentives.
- Based on the above, the potential investor submits a request to the Ministry.
- The final decision as to granting the aid or not, as well as to its amount, is made by the government.

The whole procedure of approving the state aid, starting from the moment of submitting the investment plan may take approx. 4 months.

Please note that the government may grant the state aid but it is not obliged to do so. As to the amount of aid, this basically depends on the financial possibilities of the state budget and the decision of the government taking into account the total amount of investment, number of new jobs, location of the new plant, level of unemployment and generally the current socio-economic conditions and needs of the respective region as a whole.

Therefore, SARIO cannot guarantee that aid will be granted or that it will be granted in certain amount. We can only advise as to the types and maximum amounts of state aid, and will gladly assist when preparing all necessary documentation required for submitting the application.