



METHODICAL GUIDE REGARDING TAX EXEMPTION

**OF NON-MONETARY BENEFITS
UP TO EUR 500 PER YEAR**

KEY INFORMATION

On 1 January 2022 a new provision of the Slovak Income Tax Act (“the ITA”) - Article 5(7)(o), came into effect, based on which the tax (and also social security and health insurance) exemption is extended to *“non-monetary supplies provided to an employee up to EUR 500 in total in a tax period from all employers, if... the costs incurred by the employer in respect of this non-monetary supply are not regarded as costs for reaching, assuring, or keeping taxable revenues, [then] only supplies exceeding this amount are included in the tax base.”*

NEW PROVISION

We have considered this new provision of the ITA to be very positive from its inception; however, there were some related uncertainties. Therefore, the Financial Directorate recently published a Methodical Guide to this provision. We choose 3 relevant provisions to examine:

- ▶ If the employer supplies a non-monetary benefit which is tax exempt based on another specific provision of the ITA, such benefit cannot be tax exempt based on Article 5(7)(o) of the ITA...

This was already known from the legal explanation of the ITA amendment. For example, this exemption cannot be applied to the nutrition of employees, their accommodation, or their transport to work, as these benefits have their own tax exempt provisions.

- ▶ *As the ITA does not oblige employers to report in advance tax exempt non-monetary supplies based on Article 5(7)(o) of the ITA, the employer is not obliged to gather information about the amount of tax exempt non-monetary supplies an employee received from other employers. If more than one employer provides non-monetary supplies under Article 5(7)(o) of the ITA to an employee, and those supplies total more than EUR 500, the employer will take the amounts which do not meet the conditions for the tax exemption into account during the annual reconciliation of tax prepayments, or the employee will include them in the sum of taxable income in his or her personal income tax return. The employer will declare the total amount of tax-exempt income based on Article 5(7)(o) of the ITA for the whole tax period on a specific line of its income confirmation according to Article 35(5) of the ITA.*

This is positive news for payroll departments concerning employees coming in or leaving during the year. But some administrative tasks will still increase, and tax-exempt non-monetary supplies will have to be recorded and reported separately on income confirmations.

„tax-exempt non-monetary supplies will have to be recorded and reported separately on income confirmations“

AND LIKELY THE BEST PART OF THE GUIDE FOLLOWS:

- ▶ If the employer provides employees with a voucher (a card), with which they can purchase goods or services from pre-defined suppliers (the use of the voucher must be limited to certain suppliers of goods or services from the outset), the employer can apply the Article 5(7)(o) exemption to such supplies. However, this does not apply if the employer provides employees with a voucher (card) which can be used for any goods or services from any supplier.

Thus, vouchers such as ALZA vouchers or CAFEERIA benefit schemes may satisfy the conditions for tax exemption if the services and goods included in these schemes are non-monetary and also meet other conditions, in particular if they are funded from sources which the employer will treat as tax non-deductible.

WHAT IS THE CONSEQUENCE OF THIS?

The Guide provides answers to several questions, but there remain some unaddressed issues, e.g.:

- ▶ How will an employer prove during the tax year that its non-monetary supply is funded from tax non-deductible sources when its corporate income tax return will be submitted later?
- ▶ What falls under the definition of “*non-monetary supply*?”
 - For instance, does the purchase of goods/services by the employee, for which the employer reimburses the employee and retains the receipts qualify? In our view, such a benefit would be viewed as monetary income;
 - What if the employer provides the employee with shares or cryptocurrencies? In our opinion, application of the tax exemption would be risky - while the supplies are not monetary, they may be viewed as a payment tool, i.e., the proscribed “*voucher/card to be used for the purchase of any goods/services from any supplier.*”

We will further monitor the interpretation of the relevant provisions. In any case, we recommend that every employer consider how to apply the new provision of the ITA. The mathematics is simple - a change of (1) the tax deductibility of costs (increase of the corporate income tax rate of the employer by 21% of the value of the benefits, but only if the employer reports a tax profit) for (2) a decrease in the employer's costs by 35.2% of the value of benefits (employer's social security and health insurance contributions) together with (3) an increase in the net salary of the employee (cca. 30% of the value of the benefit).

„What if the employer provides the employee with shares or cryptocurrencies? “

CONTACT PERSON



Eva Belkova,
Partner
e-mail: belkova@bdoslovakia.com

OUR OFFICE IN BRATISLAVA

BDO Services, spol. s r.o.
Pribinova 10, 811 09 Bratislava, Slovak Republic

Business ID Number: 35 716 401
VAT ID number: SK2020250441
BDO Services, spol. s r.o. is registered with the
Companies Register of the District Court Bratislava I.