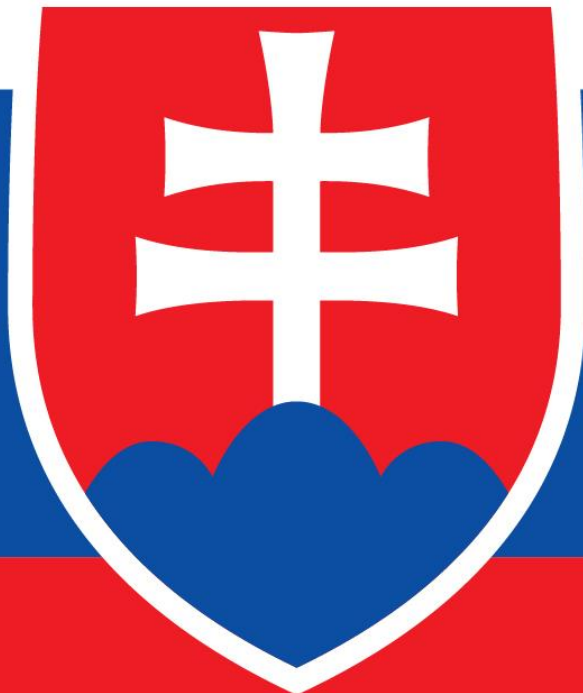


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Payment of wages in special cases in subcontracting relationships

The National Council of the Slovak Republic passed an amendment to Act No. 178/2024 Coll., amending Act No. 311/2001 Coll., the Labour Code, as amended (hereinafter referred to as the "Labour Code") with effect from 1 August 2024. The alterations include supplementing and modifying the rules that stipulate the obligation of a service provider operating in the Slovak Republic to pay wages if the employee has not received the wages from his/her employer, the employer acting as a direct subcontractor of the respective service provider. The alterations also define more precisely the conditions under which a service provider may refuse to pay wages.

The amendment to the Labour Code has extended the legal regulation so that the provider's obligation applies not only to the situation in the context of posting employees to the territory of the Slovak Republic, as was the case until now, but also to cover situations where the subcontractor is established in the territory of the Slovak Republic.

The aforementioned action of the legislator can be interpreted as a reaction to comply with the request of the European Commission, which pointed out the inconsistency of national measures with Directive 2014/67/EU of the European Parliament and of the Council of 15 May 2014 on the enforcement of Directive 96/71/EC concerning the posting of workers in the framework of the provision of services and amending Regulation (EU) No 1024/2012 on administrative cooperation through the Internal Market Information System.

Under the current legislation, an employee may also claim the right to payment of wages from a natural person or a legal person who is a service provider in the Slovak Republic and whose direct subcontractor is the employee's employer to the extent of the minimum wage applicable at the time of performance of work under the subcontracting relationship for each hour of work performance, not more than the difference between the amount of the minimum wage applicable at the time of performance of the work under the subcontracting relationship for each hour of performance of the work and the wage provided by the subcontractor for the performance of that work.

The above may be applied in cases where the wages payable to the employee have not been paid and are due for the performance of work, such as construction work within the meaning of Annex 1aa to the Labour Code, the performance of which is the subject of the subcontractor's obligation under the legal relationship between the subcontractor and the service provider, and at the same time the employee makes a **written** request to the service provider for the payment of the wages **within a period of six months** from the date on which the wages are payable.

The Annex to the Labour Code contains a demonstrative list of works, i.e. the wording may not be exhaustive, (in particular, it may concern construction works relating to the construction, repair, maintenance, alteration or demolition of buildings, in particular excavation, earthworks, actual construction works, assembly and disassembly of prefabricated parts, interior or installation works, alterations, renovation works, repairs, disassembly, demolition works, etc.).

The Labour Code reflects what the employee should indicate in his/her request for payment of wages. In particular, it should include information relevant to the assessment of the employee's entitlement to wages, in particular the employee's identification data, the employer's identification data, the amount of wages that is the subject of the employee's request, information on the due date of the wages that the employee is requesting to be paid, the amount of the part of the wages paid for the performance of work under a subcontracting relationship, if it has been paid by the subcontractor, the period for which the employee requests payment of the wage, the type and extent of the subcontracted work performed by the employee, the method of payment of the wage in cash or to an account in a bank or a branch of a foreign bank, including the details necessary for payment of the wage.

The employee may also indicate other relevant facts which will help to clarify the situation.

The service provider is thus obliged to pay the employee's wages (less any deductions that would have been made by the subcontractor if it had paid the wages) **within 30 days of the date** on which the employee made the request for payment of the wages.

At the same time, the wording of the Labour Code implies the obligation of the parties to cooperate with each other, i.e. to provide each other with immediate cooperation, for example, which could arise in connection with the provision of personal data to the extent necessary, etc. The new provision also regulates the obligation of the service provider to inform the employee as well as the subcontractor in writing without delay.

The new regulation of the statutory provision also provides for situations where the service provider may refuse to pay wages. Further information regarding the refusal of payment of wages is regulated by the provision of Section 130a(7) of the Labour Code. A service provider may refuse to pay wages if, when selecting a subcontractor for the purpose of entering into a legal relationship between itself and the subcontractor, it could not, even with due diligence, have foreseen that the subcontractor would not pay wages to its employees. However, this does not apply where the service provider has not, at the date of entitlement to payment of wages, discharged its own outstanding pecuniary obligation arising out of the legal relationship with the subcontractor relating to the performance of the work under the subcontracting relationship.

In assessing whether the service provider has exercised due diligence, all relevant facts in context and the specifics of the situation under consideration shall be taken into account. It will be based on a variety of factors such as the reasonableness of the agreed price for the performance, any previous fines for illegal employment, etc.

Any disputes arising in connection with non-payment of wages within the meaning of the provision in question shall be classified as labour disputes.

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→ TAX

Approved amendment to the Motor Vehicle Tax Act

On 27 November 2024, the National Council of the Slovak Republic passed an amendment to the Motor Vehicle Tax Act, which will be effective from 1 January 2025.

One of the most significant changes is the unification of the adjustment/calculation of the annual tax rate for all vehicles. Until now, the annual tax rate has been modified depending on the category of the vehicle, however with effect from 1 January 2025, the annual tax rate will be set uniformly. These rules will be binding for all vehicle categories. The annual tax rate will be determined as follows:

- The annual tax rate shall remain at the statutory level for the first 36 calendar months, including the month of first registration of the vehicle,
- The annual tax rate shall increase by 10 percent for the next 36 calendar months,
- The annual tax rate shall increase by 20 percent for the next 36 calendar months,
- The annual tax rate shall increase by 30 percent for the next 36 calendar months,
- The annual tax rate shall increase by 40 percent for the next 36 calendar months,
- The annual tax rate shall increase by 50 percent for vehicles older than 180 calendar months.

The change in the system of calculating the annual tax rate will increase motor vehicle taxes on passenger cars by 30-40 percent. On the other hand, the motor vehicle tax for trucks will decrease significantly, as a counterbalance for the increase in toll rates for trucks.

An important change from 1 January 2025 is the breakdown of the annual tax rates depending on the category and type of vehicle body. These annual tax rates are set out in the Annexes to the Motor Vehicle Tax Act.

Under the current Motor Vehicle Tax Act, the annual tax rate for vehicles of categories L, M and N whose only source of energy is electricity was set at EUR 0. With effect from 1 January 2025, the annual tax rate will be EUR 0, only for electric vehicles of categories L and M1.

There is also a change in the case of a 50 percent reduction in the annual tax rate, which will only be applicable to vehicles of categories L, M1 and N1, if it will be a

- Hybrid motor vehicle,
- Motor vehicle powered by compressed natural gas (CNG) or liquefied natural gas (LNG),
- Hydrogen powered motor vehicle.

The aforementioned 50 percent reduction in the annual tax rate has been applied so far to all categories of hybrid, hydrogen, CNG and LNG vehicles.

The tax period for the motor vehicle tax is the calendar year, for the tax period of the calendar year 2024 the tax liability will be calculated in accordance with the previous rules valid until 31 December 2024. **The obligation to pay motor vehicle tax advances for 2025 has to be calculated already taking into account the tax rates valid for 2025.**

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→ BUSINESS

How to prepare for an effective financial audit

If an audit is carried out in a company, it is usually either a statutory audit within the meaning of Section 19 of Act No. 431/2020 Coll. on Accounting, as amended, or a voluntary audit based on a request from a shareholder or the company's management. The audit process is essentially a collaboration between the audit team and the team of the company. In order to make this cooperation as effective as possible and to avoid unexpected situations, it is advisable to follow a number of procedures, which we have summarised below.

1. Suitable audit timing

Effective scheduling of audit dates, whether it is a preliminary or a main audit, is key to the success of the whole process. This step requires efficient coordination between the auditor and the company to ensure smooth collaboration and minimize potential obstacles during the audit. The suitable timing of the audit depends on a variety of factors, the most important of which include the company's workload and the availability of the audit team.

Companies, particularly larger organisations or those operating in dynamic industries, are typically faced with a high volume of day-to-day tasks and deadlines during the year, requiring a significant amount of time and resources. Internal monthly reporting, payroll calculations, VAT return preparation and other regular financial activities are priority tasks for the company that may conflict with audit time demands.

On the other hand, the auditor faces the challenge of ensuring sufficient and appropriate staffing for the specific engagement. Coordination between multiple engagements can be a challenge because the individual engagements build on each other, often without a single day off in between, and so even a small shift in the deadline can cause scheduling conflicts and delays. In addition, if during the major pre-audit or audit period when the number of engagements is higher (e.g. during October or November and during the first months of the following year) the engagement is rescheduled at the last minute, the auditor may not be able to ensure the same composition of the team or it may be difficult to ensure optimal staffing, which may affect the time efficiency of the audit.

To avoid these problems and to ensure a smooth implementation of the audit, it is necessary to start scheduling well in advance. This allows for flexibility to accommodate audit team availability and coordinate with the company's schedule to ensure that all processes are performed according to the plan and expectations of both parties. Timely communication between the auditor and the company's management is key, as it allows for efficient reallocation of resources and resolution of any conflicts in deadlines. In addition, it is welcome to include the possibility of alternate deadlines to allow for flexibility in unforeseen circumstances.

2. Preparation of documents

Preparation of documents is another important element in the preparatory phase of the audit. The auditor will usually send the client a list of the necessary documents well in advance of the audit. The early delivery of the list of documentation provides the client with the necessary time to review it thoroughly, to become familiar with it, to assign tasks to responsible persons within the organisation and, if necessary, to clarify ambiguities or amend incomplete information before the audit begins.

Providing documentation in advance is not only a matter of time convenience, but also a way to increase the efficiency of the overall audit. If the supporting documents are prepared and delivered to the auditor in a timely manner, the risk of delays during the audit is reduced, allowing auditors to thoroughly review the requested documents and identify any discrepancies or problematic issues before specific

procedures are performed. This proactive approach can significantly save time and minimise delays that could arise during the audit itself.

The recommended format of supporting documents should be adapted to the nature of the documents. For legally binding documents such as contracts, certificates of receipts or other official documents, a PDF scan is most appropriate to ensure their immutability and protection from unauthorised modifications. For numerical data, spreadsheets, financial analyses and other quantitative documents, the optimal format is Excel, which allows auditors to easily handle the data and quickly perform calculations or analyses. High-quality and correctly formatted documents not only facilitate the auditor's work, but also support transparency and accuracy of data.

In the event of any problems with the availability of supporting documents or if additional information needs to be secured, it is essential that the client informs the auditor of any complications on time. It is important to discuss alternative solutions in a timely manner if there are problems with the quality or completeness of the documentation or if those responsible in the organisation are unable to provide the necessary information within the stipulated deadlines. This may involve agreeing a new deadline for submission of documents or stipulating another course of action that suits both parties. Communication and flexibility are key in this case, because if the documentation is not available in the correct form and on time, it can have a negative impact on the audit process and its overall effectiveness.

3. Tasks during the year

Regular monitoring and review of the accounts during the year is essential to ensure the smooth running of the accounting processes and to minimise potential problems that could arise at the year-end or during the main audit. To avoid unpleasant surprises, it is essential to implement a regular regime of reconciliation of the general ledger accounts with supporting (subsidiary) records. It is recommended that the balances of accounts receivable, accounts payable, as well as the balances of fixed assets, inventories, bank accounts, payroll, taxes and other accounts receivable or payable be verified on a monthly basis. This process allows for the early identification of discrepancies that may be caused by accounting errors or inconsistencies between different accounting records.

Regular and timely monitoring of accounts helps to reduce the risk of unexpected differences occurring at year-end that could require difficult and time-consuming adjustments. If such differences arise at the year-end closing or are identified during the main audit, their resolution can significantly prolong the audit process. On the other hand, the timely identification and correction of such differences during the year facilitates the audit process and ensures greater accuracy and reliability of the financial statements.

In addition, it is very important to plan the inventory in advance and to coordinate it with the auditor, in particular to inform the auditor of the date of the inventory in good time so that he or she can attend.

An equally important aspect is timely communication with the auditor in the event of one-off or unusual transactions. If a company is planning transactions that are non-standard or may have complex tax, legal or accounting implications, it is advisable to seek professional advice before they take place. Early consultation with legal, tax or accounting professionals can help avoid problems that could arise after the transaction, such as improper accounting, failure to comply with regulatory requirements or incurring penalties.

Finally, if the auditor issued a letter of recommendations and findings in the previous year that related to prior audits, it is important to review whether those recommendations have been accepted and implemented. A review of the measures adopted on these recommendations may reveal whether the organisation has improved its internal controls or corrected other weaknesses or errors identified. In addition, it allows the auditor to assess whether the company has taken the necessary steps to reduce the risk of the same problems recurring in the future, thereby improving the overall effectiveness and quality of the audit.

4. Year-end tasks

At the end of the year, it is essential to ensure thorough preparation and coordination of all the tasks necessary to finalise the accounts and prepare the regular financial statements or financial information for the parent company (the so-called reporting package). We recommend preparing a detailed checklist for the employees in charge that clearly defines the tasks and steps needed to close the accounting period. This checklist should include all the necessary procedures that are crucial for the proper preparation and closure of the year as well as for the subsequent audit. Timeframes for carrying out these tasks should be planned and scheduled well in advance to avoid unnecessary stress or delays in the closure of the financial year.

Important tasks that should be included in this list include the reconciliation of receivables and payables with third parties and with companies within the group. This process should include not only the confirmation of balances but also the verification of turnover for the year, ensuring that all accounts receivable and payable are correct and complete. Such a reconciliation helps to minimise the risk of discrepancies that could arise during the audit and provides the auditor with evidence of the accuracy of the accounting entries. Under auditing standards, the auditor must have control over the sending and receiving of confirmations. There are three options:

- they are sent by the auditor himself and returned to the auditor,
- they are sent by post by the company. It is necessary to have a record (postal records) that shows when and to whom they were sent (confirmed confirmations go directly to the auditor),
- they are sent by the company by e-mail. In this case, a member of the audit team needs to be on the email copy when the company sends them and when the replies come in (or be directly the recipient).

The auditor does not usually require reconciliations to be sent to all counterparties, but selects a statistically representative sample. If the company sends reconciliations to all counterparties, it is sufficient if the auditor only has control over a representative sample selected by the auditor, it is not necessary to be part of the communication with all business partners.

Another key procedure is the confirmation with banks, which includes verification of bank account balances as well as confirmation of existing loans, lease agreements and other commitments, including off-balance sheet commitments (guarantees received, etc.). This activity is essential for verifying the accuracy of the financial statements and ensuring transparency in the company's financial transactions, so it is important that this information is available in a timely manner.

In addition to bank confirmations, confirmations of legal facts concerning potential legal risks, liabilities or open disputes should also be made. These confirmations are essential to properly assess the risks that could affect the company's financial position. Legal confirmations are one tool to help ensure that the company has taken into account any claims arising from litigation or other regulatory breaches and that no liabilities that may arise in the future have been overlooked.

If the company is facing certain financial problems, or if the company depends on financial support from the parent company, it is also important to secure a statement of financial support from the parent company. This document confirms that the parent company is prepared to provide the necessary funding should liquidity problems arise. This step is essential to ensure that the company will continue as a going concern.

All these tasks should be planned well in advance to ensure that they are carried out properly and to avoid unnecessary stress in the final phase of the year.

5. Common complications

Ideally, the auditor should be provided with the final version of the general ledger and at least a preliminary draft of the financial statements for audit. This ensures that all accounting transactions are properly recorded and accounted for before the audit begins, which greatly simplifies the whole process.

However, in practice, it is common for companies to continue accounting during the audit, not only in relation to the auditor's findings, but also as part of the normal accounting process. These additional accounting transactions can sometimes cause complications if they are not properly documented and transparently communicated to the auditor.

To simplify and make the audit more efficient, it would be very helpful if companies could provide a detailed list of all accounting transactions that have been made between the version of the general ledger submitted to the auditor for verification and the final version that serves as the basis for the financial statements. This list should include all accounting entries made after the initial version of the general ledger has been submitted, so that the auditor has an overview of any changes that have taken place during the audit. In this way, any ambiguities or inconsistencies between different versions of the general ledgers will be avoided.

Due to the nature of the audit and time constraints, it is not within the auditor's capability to review every version of the general ledger that the company processes during the audit.

Another common complication that can affect the finalisation of the audit is the signing of the financial statements. In order for the audit report to be issued, the financial statements must be signed by the company's statutory body. This signature is a legal requirement and confirms that the statutory body has assumed responsibility for the content and accuracy of the financial statements. The signature by a proxy or other person, even if authorised to perform certain legal acts, is not legally permissible, since exclusively the company's statutory body is entitled to sign the financial statements. These legal requirements must be complied with, otherwise the accounts cannot be considered valid.

Compliance with these procedural and legal requirements is key to the successful completion of the audit and the production of the audit report within the agreed terms and conditions.

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→ BUSINESS

Amendment of the Act on Travel Allowances

The amendment to Act No 297/2024 Coll. alters and supplements Act No 283/2002 Coll. on travel allowances, as amended. The amendment responds to the requirements of real life and technological development, particularly in the field of electric vehicles. The purpose is to increase transparency and predictability in the business environment. It introduces changes in the calculation of compensation for fuel consumed.

Calculation of fuel compensation:

The compensation shall be based on the unit price (e.g. petrol, diesel, electricity) and the consumption determined in accordance with paragraphs 6 to 10, defining the number of litres of fuel per 100 km. According to paragraph 6, the consumption indicated in the vehicle registration document, broken down into urban and non-urban consumption, shall be increased by between 10 percent and 40 percent. It is important to note which standard or regulation stipulates the consumption in the vehicle registration document. This percentage increase in consumption is intended to correlate the consumption according to the standard with the actual fuel consumption. The amount of the calculated compensation shall be rounded up.

EXAMPLE OF CALCULATION OF COMPENSATION FOR FUEL CONSUMED:

Internal combustion engine (petrol, diesel):

- the vehicle has a consumption of 6 litres per 100 kilometres as stated in the technical certificate according to the Slovak technical standard and the European Economic Commission regulation - in accordance with paragraph 6 we can increase the consumption by 10 percent, i.e. 6.6 litres per 100 kilometres,
- the employee has filled up with petrol at a price of EUR 1.51,
- he/she has travelled 200 km during a business trip.

The calculation will have the following formula $\text{EUR } 1.51 \times 6.6 \text{ l} / 100 \text{ km} \times 200 \text{ km} = \text{EUR } 19.932$

According to paragraph 11, the amount of the basic compensation for the fuels consumed is rounded up to the nearest euro cent, i.e. EUR 19.94.

Determination of the unit price of a fuel where the fuel is electricity:

If the employee is unable to prove the unit price of the fuel with a proof of purchase (at home, or even from a charger), data from the Statistical Office of the Slovak Republic can be used, which since the beginning of this year has been tracking the average price of fuel in the Slovak Republic (weekly) in addition to the average price of petrol, diesel, gas (CNG, LNG), also:

- Electricity AC charging EUR/kWh,
- Electricity DC charging EUR/kWh,
- Electricity ultra charging EUR/kWh.

Brief explanation of Section 8 Determination of meal allowance amounts and amounts of basic compensation

According to the new wording of the Act, the meal allowance amounts for individual time zones are increased by the percentage increase in the cumulative price index for meals and non-alcoholic beverages in restaurant catering published by the Statistical Office for the relevant calendar month compared to the cumulative price index for meals and non-alcoholic beverages in restaurant catering published by the Statistical Office for the calendar month on the basis of which the meal allowance amounts were last increased, if this increase is at least 5 percent. The increased amounts of meal allowances determined in accordance with this increase shall apply from the first day of the third month following the calendar month in which the condition was met.

The above procedure shall also apply in the case of increases in the amount of basic allowance, with the difference that for the purposes of comparing the increase, the items relating to the operation of motor vehicles shall be used. Notices of changes to the amounts of the meal allowance and basic allowance, as well as the date from which they apply, shall be published in the Collection of Laws of the Slovak Republic.

According to the law, the Ministry of Labour, Social Affairs and Family of the Slovak Republic will be responsible for publication, as soon as the conditions are met.

The amendment is effective from 1 December 2024 (parts from 1 January 2025). For more detailed information, please refer to the new provisions of Sec 7 of the Act and Sec 8 of Act 297/2024 Coll.

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