News Flash

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First aid contributions of 4B from tax perspective in Slovakia

First aid contributions of 4B from tax perspective in Slovakia: single-person limited liability company

From January 1, 2021, **a new exemption from income tax of the legal person** was established for a taxpayer who is a legal person, according to § 13 par. 2 letter k) of the Income Tax Act (referred to as the "ITA"), according to which according to which are exempted e.g. benefits provided under active labour market policy according to § 54 par. 1 letter e) of the Employment Services Act. These are therefore contributions within the so-called **First aid**, First aid plus, or also the future First Aid plus plus.

Please note, that in terms of provisional the above-mentioned exemption shall be used for the first time also when submitting tax return from income of legal persons after December 31, 2020. This means, that the exemption will apply when determining the tax base or tax loss of legal persons and also for a tax period of calendar year of 2020 or for a tax period that is an economic year, for which a tax return is submitted after December 31, 2020 or for another tax period for which the tax return is submitted after December 31, 2020.

Which contributions are not exempt from income tax?

However, it is sometimes mistakenly believed that revenues from other subsidies in connection with the **COVID-19** situation are also exempt from the tax, e.g. **rent subsidies** according to the Act on the provision of subsidies within the competence of the Ministry of Economy of the Slovak Republic, revenues from the contribution to the support of tourism in connection with the mitigation of the negative consequences of the pandemic, which arose due to the COVID-19 disease according to the Act on the Support of Tourism, etc. These and other subsidies are considered taxable income and are **subject to tax**.

What to consider at the end of the year in relation to the received grants?

When determining tax base or tax loss in connection with the received grants, **a principle of maintaining neutral effect** on the tax base is applied. This means, that if the revenue from the grant in the amount affecting the economic result (note: recognized in income) is **tax exempted**, then then the costs related to it temporally and materially are not tax expenditures according to § 21 par. 1 letter j) of ITA.

However, if the revenue from the grant, in the amount affecting the economic result, is not tax exempted, i.e. it is a taxable income, then the time and material costs associated with it, for the payment of which subsidies were provided included in taxable income (revenues) are tax expenditures according to § 19 par. 2 letter m) of ITA.

Elimination of expenses in relation to grants for single-person limited liability company

Probably, the most questions in relation to this arise when eliminating the effect of grants on the tax base in case of so-called **single-person limited liability company** which can apply for a contribution within so-called **4B measures**. It is true that single-person limited liability company accounts for the contribution under measure 4B in the time and material relation with the accounting period to which the so-called eligible period for which the applicant is applying for a contribution belongs to, in favour of account **648 - Other revenues from economic activity**.

Revenue booked this way is exempt from tax and is thus a **deductible item** which appears on the line 230 in the tax return of legal person. With a goal to reach neutral effect of the received grant within the 4B measures for a tax base or tax loss, the single-person limited liability company excludes from tax expenses costs related to income not included in the tax base in accordance with § 21 par. 1 letter j) of ITA.

Please note, that in contrast to measures 1, 3A or 3B in the case of a single-person limited liability company that can claim a contribution under measure 4B may incur no labour costs. In case of measures 1, 3A or 3B to maintain neutrality in the calculation of the tax base, these costs are excluded through the so-called **"addable items".**

The purpose of the contributions within 4B measure is to **support single-person limited liability company** to replace missing revenues. Based on the above, it can be stated that this contribution was acquired by a single-person limited liability company in connection with its business activity. Therefore, it is necessary to exclude from the booked costs that part of the costs that are temporally and materially related to the tax period for which the contribution under measure no. 4B was provided, up to the amount of the recognized revenue from the contribution within 4B measure. Therefore, any costs incurred by the company can be excluded.

Please consider, that the **excluded costs are not tax expense and they are an item increasing the tax base**, which is shown in the tax return of legal person in a table of auxiliary calculations A on line 14 (subsequently on line 130).

In practice, basically two situations can arise in this context:

- **Costs** for a tax period **over the amount of contributions** within 4B measure. In this case, a part corresponding to the amount of contributions within 4B measure that are exempt from tax, will not be included in the tax expenses.
- If the costs for a tax period, that include so-called eligible period, **are not over the amount of contributions** within 4B measure, will be exempted from tax expenses only in the amount in which they arose. For example, if a single-person limited liability company doesn't report any costs, it won't add to the tax base. Of course, the exemption of the amount of subsidy booked in income remains.

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About Accace Slovakia

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