

News Flash

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Redemption of units from tax and contribution point of view in Slovakia

Redemption of units from tax and contribution point of view

Redemption means asking the management company to redeem the units = termination of the investment. In this article, we will focus on the redemption of units from a tax-contribution point of view.

Units acquired until 2003

When redeeming units that are not included in business assets, it is necessary for natural persons to follow the transitional provision of § 52b par. 11 of the Income Tax Act (referred to as the "ITA"). **Under this provision, the obligation to tax deduction also applies to units acquired before December 31, 2003.** In accordance with this provision, the management companies are obliged to tax deduction in the event of redemption of units from which a unitholder has gained a profit, regardless of the year of their acquisition.

In case of tax deduction for this group of units, it is recommended to submit a tax return, since the transitional provision of § 52b par. 20 of the ITA may also apply to these groups of securities, namely to apply tax regulations valid until the end of 2003.

Therefore, if the management company deducts the tax when redeeming the units acquired before the end of 2003 and the taxpayer meets the conditions for tax exemption of such income in accordance with the legislation in force as amended until the end of 2003, the taxpayer shall claim the amount of the withheld tax via submitted tax return.

An investor (a natural person) shall indicate the withheld tax to the taxpayers as a tax according to the § 43 of ITA, while income from such a unit won't be included in the tax return as a part of special tax base under § 7 par. 1 letter g) ITA, since this income is exempted from tax in accordance with the transitional provision of § 52b par. 20 of the ITA.

The provisions of § 4 par. 1 letter d), 10 par. 3 letter a) and § 58 par. 8 of Act no. 366/1999 Coll. on income taxes (hereinafter referred to as the "old ITA") must be applied to taxation of income from sell of securities, i.e. also to redemption of

units acquired before 2004, even when they were redeemed after 2003. In accordance with § 4 par. 1 letter d) of the old ITA valid from January 1, 2020 to December 31, 2003, the income from sale of securities was exempted from tax, if the period between their acquisition and sale exceeded three years, whereas the sale of a security for the purposes of the old ITA was also considered a resale, i.e. redemption of the units.

In case of units acquired until the end of 1999, the Act no. 286/1992 Coll. on income taxes, as amended, was in force and according to which the income from sale of securities was considered as other income according to the § 10 par. 1 letter d) of the Act no. 286/1992 Coll. with an exemption in § 4 of this act. According to the exemption, incomes from sale of securities were exempted from tax if the period between their acquisition and sale exceeded one year and these incomes weren't a subject of a business of the taxpayer or they didn't serve to his business or another self-employed activity, while this provision didn't apply to the incomes from capital assets. This provision also applies to the application of tax exemption in the event of units redemption acquired until the end of 1999, in case when the units are held by the taxpayer until now.

It means that, in case of redemption of units acquired before 2004, the conditions in 2020 for tax exemption required by legislation valid until 2003 will be fulfilled. In the event of redemption of such units in 2020, it is recommended to shareholders to submit tax return for 2020 and indicate an amount of withheld tax by the management company as a tax advance. As income from the redemption of such units will be exempt from tax, **the amount of withheld tax will constitute an "excess payment" of tax from this type of taxpayer's income.**

Units acquired from 2004

Income from distribution, or refund of units is considered as income from capital assets. A special tax base in case of such income means the amount by which the total income from the redemption of units within a given calendar year exceeds the total amount of the unitholder's deposits. This also applies if the taxpayer owns units in several funds.

The special tax base of such taxpayer is, in case of redemption of units in several funds, calculated from the difference between incomes from all units attained from their redemption and the

The special tax base of such a taxpayer is, in the case of a redemption of units in several funds, calculated from the difference between the income from all units obtained from their redemption and all unitholder's contributions relating to those redeemed units. If such an overall difference is negative, it is not considered for tax purposes. This means that in case of redemption of units, it is possible to compensate the profits and losses gained from their redemption within the calendar year.

In accordance with § 43 par. 3 letter b) of ITA, the tax shall be levied by deduction also in the case

of income from units achieved by their redemption. The taxpayer, e.g. management company is obliged to the tax deduction in accordance with § 43 par. 10 of ITA, whereas the tax deduction is made on the positive difference between the paid untaxed amount and the unitholder's contribution, which is the selling price at the time of issue. The tax thus deducted shall be deemed as paid once it is properly deducted, but a natural person may decide to treat such a tax deduction as his advance on the tax. The above-mentioned is significant especially if the taxpayer gains profits or losses from redemption of different units within calendar year, while from their total offsetting it shows such a special tax base for which the amount of tax liability calculated from it is lower than amount of the withholding tax deducted on the units from which he gained profit, e.g. by filing a tax return, he can "get back" to all or part of the amount of tax withheld during the calendar year.

Incomes from redemption of units are subject to tax at tax rate of 19%.

Redemption of units and contributions

Income from redemption of units is not a subject to social and health contributions.

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