Fresh tax, legal and economic information

NEWSLETTER

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WE ARE CHANGING VISUAL DESIGN!

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HLB MANDAT
TAX & AUDIT SERVICES

We are a member of HLB International, the global advisory and accounting network

WE ARE CHANGING VISUAL DESIGN!

For 14 years already, MANDAT CONSULTING, k.s. and MANDAT AUDIT, s.r.o. have been members of HLB International, an international network of independent accounting and consultancy firms (hereinafter "HLB"). This year, HLB celebrates its 50th anniversary.

On this occasion, HLB launches a new brand, including logo, slogan and website, to support the transformation of HLB into a modern and dynamic network that is closer to its customers.

The new logo has a round shape, characterizing a community, friendship, entirety and perseverance.

The new slogan: **"Together we make it happen"** is the result of the long-term philosophy of HLB and characterizes the close collaboration between membership firms and the long-term relationships with customers. Thanks to these characteristics, volume of services provided has been recording significant growth over the long term.

We believe that you will like our new visual design.

Martin Šiagi
Partner

Roman Ferjanc
Partner

Robert Jex
Partner

To ensure a unified interpretation of legislative requirements in relation to taxation of income from a sale of virtual currency, the Ministry of Finance of the Slovak Republic has issued the Methodological Guideline No. MF/10386/2018-721.

According to this guideline, a virtual currency (or crypto-currency) means a digital carrier of value which is neither issued nor guaranteed by any central bank and/or public authority and is not necessarily linked to any legal tender, has no status of a currency or money, but is accepted by some natural or legal persons as means payment, and which may be transferred, stored and/or purchased/sold electronically.

1. Virtual Currencies in Relation to Income Tax Act

Any income (earnings) resulting from a sale of virtual currency is subject to tax, is not exempt from the tax and therefore is considered as taxable income pursuant to Act No. 595/2003 Coll., on Income Tax, as amended by the amendment effective from 1 September 2019 (hereinafter referred to as the "Income Tax Act"). For the purposes of taxation under this guideline, a sale of virtual currency means any exchange, e.g. an exchange of virtual currency for any assets or an exchange of virtual currency for a provision of service and/or for another virtual currency, as well as its transfer for consideration.

For taxpayer who is a natural person and has not included the virtual currency in his/her business assets, any income from its sale is considered as other income pursuant to Section 8 of the Income Tax Act. The achieved taxable income can be decreased by any demonstrably incurred expenses related to the achievement of the income; if the expenses are higher than the achieved income, however, the difference is not taken into account.

For taxpayer who establishes his/her tax base pursuant to Section 17(1) of the Income Tax Act, i.e. whose taxation is based on accounting, the income resulting from the sale of virtual currency is taxable income and it is reasonably viewed as

income resulting from financial assets. When calculating his/her tax base or tax loss, such taxpayer determines his/her profit/loss based on accounting and or difference of income and expenses. The resulting profit/loss or the difference of income and expenses shall be then transformed into tax base using the provisions of Sections 17 through 29 of the Income Tax Act. Based on those provisions, taxable expenses may be deducted from the income achieved by the sale of virtual currency in accordance with Section 19 of the Income Tax Act, up to the amount of income from the sale, reasonably in accordance with the provisions of Section 19(2)(f) of the Income Tax Act.

2. Virtual Currencies in Relation to VAT Act

Trading with virtual currencies is considered as a financial transaction and as such is exempted from the value added tax in the EU, based on the judgement of the European Court of Justice. Notwithstanding the above statement, VAT may be applicable to virtual currency if it is used for paying for purchased goods and services, as such a transaction is subject to VAT as if euro is used as the transaction currency.

3. Virtual Currencies in Relation to Accounting Act

Virtual currencies are valued as follows:

- Acquisition price, if the currency was acquired by purchase
- Fair value, if the currency was acquired by exchange for another virtual currency

For accounting purposes, virtual currency acquired for consideration is viewed as other current financial assets. Any increase/decrease in virtual currency is accounted for using accounts of the Current Financial Assets group of accounts (25) created by the accounting entity, e.g. account 258 – Virtual Currency.Analytic accounts are created for individual virtual currencies. For the virtual currency acquired by mining, a dedicated analytic account is created as at the day of its exchange for other assets or services. To account for any decrease in virtual currency as expense, the account 568 – Other Financial Expenses is debited. To account for any increase in virtual currency as income, the account 668 – Other Financial Income is credited.

When calculating fair value of virtual currency according to Section 27(13) of Act No. 431/2002 Coll., on Accounting, as amended by the amendment effective from 1 October 2018 (hereinafter referred to as the "Accounting Act") nominated in foreign currency to euro, the procedure pursuant to Section 24(2)(a) of the Accounting Act shall be used. Any differences in value resulting from the valuation of virtual currency and conversion of virtual currency to euro shall be, based on their characteristics, either debited to account 568 – Other Financial Expenses or credited to account 668 – Other Financial Income.

As at the date of financial statements, virtual currency is not valued using fair value and/or market value.

In relation to crypto-currencies, we often hear about their mining. Mining of crypto-currency (virtual currency) is another manner of its acquisition different from a direct purchase of crypto-currency. Mining of crypto-currency, e.g. bitcoin, may be described as a provision of computational capacity of high-end hardware for tasks related to the crypto-currency (e.g. to verify whether transactions associated with the crypto-currency are true) for a consideration in the form of a fraction of crypto-currency (virtual currency). Mining of crypto-currency may be performed by non-entrepreneurs as well as entrepreneurs. In case of crypto-currency we may thus encounter a situation, when at the beginning, there is no crypto-currency owned by a particular non-entrepreneur or entrepreneur, and he/she acquires it by the process of mining.

CANCELLATION OF THE TAX GUARANTEE MECHANISM

With effect from 1 January 2019, the provisions requiring to deposit a tax guarantee when registering for the payer are removed from the VAT Act in full. This move is related to the fact that this mechanism is no longer needed to fight against tax fraud as the number of decisions requiring to deposit the guarantee has decreased.

TAXATION OF SINGLE-PURPOSE AND MULTI-PURPOSE VOUCHERS FROM A VAT PERSPECTIVE

From January 2019, the amendment to the VAT Act introduces new provisions on the taxation of vouchers.

The law distinguishes between two types of vouchers, depending on whether or not the tax regime is known when a voucher is issued.

In case of single-purpose vouchers, place of delivery of goods or service and the applicable tax rate are known at the moment of the issuance of the voucher, and the tax liability arises at the moment of the transfer of the voucher.

A multi-purpose voucher, however, differs from the single-purpose voucher. In case of multi-purpose voucher, neither the place of delivery nor the applicable tax rate is known. The tax liability arises only at the time of the redemption of the voucher, i.e. when the voucher is exchanged for goods and/or service.

UNIFICATION OF RULES FOR THE ASSESSMENT OF TURNOVER FOR THE PURPOSES OF REGISTRATION OF A DOMESTIC VAT PAYER

Due to the legal definition of this term, which is important for determining a payer's legal obligation to register for VAT, it was necessary – before 31 December 2018 – to distinguish between taxable persons using simple-entry bookkeeping and those using double-entry bookkeeping. For this reason, the adopted amendment does not use the terms "revenues" and "income" anymore.

Turnover means the value of delivered goods and services in the domestic market, except for those exempt from the tax, apart from insurance and financial services provided as ancillary services and/or apart from occasionally supplied tangible or intangible assets.

Turnover does not include pre-payments received in relation to future deliveries.

They will be included in the turnover only in the calendar month in which the actual delivery took place or was completed.

CANCELLATION OF RECIPROCITY RULES FOR CROSS-BORDER FINANCIAL LEASING

The amendment also introduces changes concerning delivery or acquisition of goods or new vehicles on the basis of a lease contract with a purchase option. The provider of cross-border financial leasing no longer has to adapt the tax regime to the VAT legislation in force in the lessee's Member State, and the same applies, *mutatis mutandis*, for the lessee.

In practice it means that the lessor performs a delivery of goods and the lessee carries out a purchase of goods.

CHANGE IN THE PLACE OF PERFORMANCE OF TBE SERVICES

The amendment to the VAT Act aims at simplifying the process of provision of telecommunication services, radio and television broadcasting services and electronic services (hereinafter referred as "TBE services" only) provided to persons other than taxable persons within the European Union. The amendment concerns the place of performance of TBE services. Until 31 December 2018, the following principle was applied: the place of performance of TBE services to a person other than a taxable person is the Member State where such a person is established, has his/her permanent address or usually resides. From 1 January 2019, the place of performance of TBE services to a person other than a taxable person is the Member State where the provider is established, has his/her permanent address or usually resides, after specific conditions have been fulfilled, the most important of which is that the value of such services must not exceed EUR 10,000 in two consecutive tax periods.

TBE service provider that meets the above conditions may choose to maintain the

original place of performance. Such a decision must be followed for the period of two years.

Another change allows to use the simplified procedure by suppliers from countries outside the European Union, even if they are registered for VAT in one or more Member States. Such foreign persons must not have, however, their seat or establishment in the EU.

REDUCTION OF THE VAT RATE ON ACCOMMODATION SERVICES

From 1 January 2019, the list of goods with the reduced VAT rate is supplemented by a list of services with the reduced 10% rate. These services are: accommodation services of hotel type, tourist accommodation and other short-term accommodation services, operation of camp sites and grounds, as well as other accommodation services such as student homes, student hostels, etc.

CHANGE IN THE RULES GOVERNING DELIVERIES OF BUILDINGS AND LEASE OF REAL PROPERTY

With effect from 1 January 2019, conditions for a tax exemption in case of delivery of building or a part thereof have been tightened. The purpose of this amendment is to ensure that an added value is subject to taxation when a change in the purpose of use occurs or when a reconstruction is so extensive, that the renovated building can be considered a new building. Both these cases must be the result of the construction works carried out on the respective building.

The same conditions apply to a delivery of a part of a building, e.g. an apartment and/or non-residential premises. In this regard, one more change has been adopted. The amendment makes it impossible for a taxpayer to decide that a delivery of an individual flat or apartment in a residential building should be subject to taxation.

Changes have been also introduced in the area of real property taxation. With effect from 1 January 2019, a mandatory exemption of lease or sublease of a residential building or a part thereof, irrespective of the status of the customer, has been implemented in the law.

ABOUT US

The companies **MANDAT CONSULTING, k.s.** and **MANDAT AUDIT, s.r.o.** were founded in 2004 as tax advisory and auditing companies. Since their establishment, they have been providing small, medium-sized and companies active in Slovakia with services in the field of tax consultancy, audit and accounting. Long-lasting cooperation with foreign advisory companies hand in hand with the competence of Slovakian tax advisors and auditors enables us rendering our service to the clients originated from abroad.

In present time, 41 well trained members of our staff are at the disposal to our clients.

Information provided in this material are only of a cursory nature.
MANDAT CONSULTING, k.s. assumes no liability for any decision taken on the basis of this issue.

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Please contact us, should you require additional information.

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