

KINSTELLAR

Setting up operations in Slovakia

Today's uncertainties at the European Union's eastern border have left companies questioning the safety of their people and the continuity of their operations in that part of the world. Businesses in the IT and BPO sectors that had found talent and growth opportunities in counties such as Ukraine and Moldova are now rethinking their strategy and options to move operations across the border, either temporarily or permanently.

Kinstellar's team in Slovakia has prepared a quick overview of the most important aspects that you should consider if you decide to move your operations to Slovakia.

Key facts about Slovakia

Slovakia has long-standing historical, political, cultural, economic and commercial ties with its neighbouring countries, including Ukraine.



Population
5.4 million

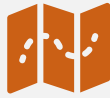
Capital city
Bratislava

(with a population of about 600,000)

Official language
Slovak

(with English widely spoken, in particular in the business community and by the younger generation)

Currency
Euro



TRANSPORT

Transport in Slovakia is possible by road, rail, air or river.

While Slovakia has a well-developed rail network of roughly 3,600 km, the highway system requires further development and there are currently plans to build approximately 400 km of highways and 200 km of expressways, with new sections under construction.



MEMBERSHIPS

Slovakia is a member of the EU since 2004 and of the Eurozone since 2009.



It is also a member of:



WORLD TRADE ORGANIZATION



OECD



Organization for Security and Co-operation in Europe

and a number of other international organisations, which make the country a fully integrated Western European-style, democratic and stable state.



UNEMPLOYMENT

The unemployment rate slightly increased, mainly as a result of the COVID-19 pandemic, to around 6.86%, at the beginning of 2022. Nevertheless, a large number of employers actually face a lack of skilled labour and the import of labour from neighbouring non-EU member states such as Ukraine is common and is increasing.



SLOVAK INDUSTRY

Slovak industry is based on a highly skilled workforce, mainly in automotive, information technology, electronics, mechanical engineering and chemical engineering.

The automotive industry is a main pillar of Slovak industry. Due to the large investments of Volkswagen, PSA – Peugeot (now Stellantis), Kia Motors and most recently Jaguar Land Rover, Slovakia is one of the leading car producers in the world and the world leader in car production per capita.



FOREIGN OWNERSHIP OF A SLOVAK COMPANY

Currently, there are no restrictions in respect of foreign ownership of a Slovak company, except for critical/strategic undertakings. There is currently an on-going legislation procedure in relation to the screening of foreign direct investments in order to protect the strategic interests of the Slovak Republic. Contemplated legislation is aligned with the European Union's approach to FDI control and is anticipated to enter into force as of January 2023.



AVERAGE OFFICE LEASE COSTS

per sq. m. per month
for Class-A office
buildings

EUR 18-20



Bratislava
city centre

EUR 11



Košice

EUR 10



Žilina

Lease costs for Class B
buildings are generally
30% lower.



COST OF LIVING INDEX¹

Slovakia is number **28 out of 40** countries in Europe in terms of cost of living (Switzerland being number 1 and Moldova being number 40). The average cost of living is 44.68, making Slovakia a **good place** for working professionals. Costs of living are higher in the major cities.



SALARIES

Average monthly salary in
Slovakia (January 2022):

EUR 1,261



IT/BPO sector average salaries in Slovakia are **much higher²** and range from **EUR 2,250** (Information Technology) to **EUR 3,800** (Executive/C-Level)



TAX

Corporate tax

21%

Personal income tax

19-25%

VAT

20%

Withholding tax
on dividends

(reduced in many instances
by double tax treaties and EU
Parent-Subsidiary Directive)

7%



COVID-19 RESTRICTIONS³

Lockdown measures

Currently, there is no national lockdown and almost all Covid-19 related restrictions have been lifted. Face masks are mandatory only in medical/social facilities. Covid-19 certificates (completed vaccination, suffered disease or negative test) are no longer required when entering shops and services, workplace, visiting a hotel, restaurant or when attending mass events.

Forced business closures

There are currently no business closures or limitations.

International travel

Arrivals to Slovakia are free of restrictions (no requirements for vaccine certificates or PCR test; no registration obligations).

¹ Measuring the relative cost of living by calculating the average cost of a number of specific goods and services required for people to live an average life. These indices are relative to New York City (NYC). Which means that for NYC, each index should be 100(%). If Bratislava has, for example, cost of living index of 49.44, it means that on an average, Bratislava is 50.56% less expensive than NYC.

² These values are calculated as an average of the values reported by the relevant employment surveys and as such are subject to change from time to time.

³ Up-to-date measures are published on this link: <https://korona.gov.sk/>.

Starting business in Slovakia

Choice of entity

Business in Slovakia may be conducted by a variety of entrepreneurial entities. These include entrepreneurs carrying out business alone (sole traders) and the following types of entities:

- i. limited liability companies (*spoločnosť s ručením obmedzeným* or *s.r.o.*);
- ii. joint-stock companies (*akciová spoločnosť* or *a.s.*);
- iii. simplified joint-stock companies (*jednoduchá spoločnosť na akcie* or *j.s.a.*);
- iv. general commercial partnerships (*verejná obchodná spoločnosť* or *v.o.s.*);
- v. limited partnerships (*komanditná spoločnosť* or *k.s.*); and
- vi. cooperatives (*družstvo*) as a special legal form.

Generally, foreign entities can register to conduct business Slovakia via a branch or through setting up business entity or participation in Slovak entities by owning shares or ownership interest (*obchodný podiel*) in substance under the same conditions as the Slovak entities. In addition, the following European forms of legal entities are allowed to operate in the Slovak Republic:

- i. European Economic Interest Grouping;
- ii. European Company (*Societas Europea*); and
- iii. European Cooperative Society.

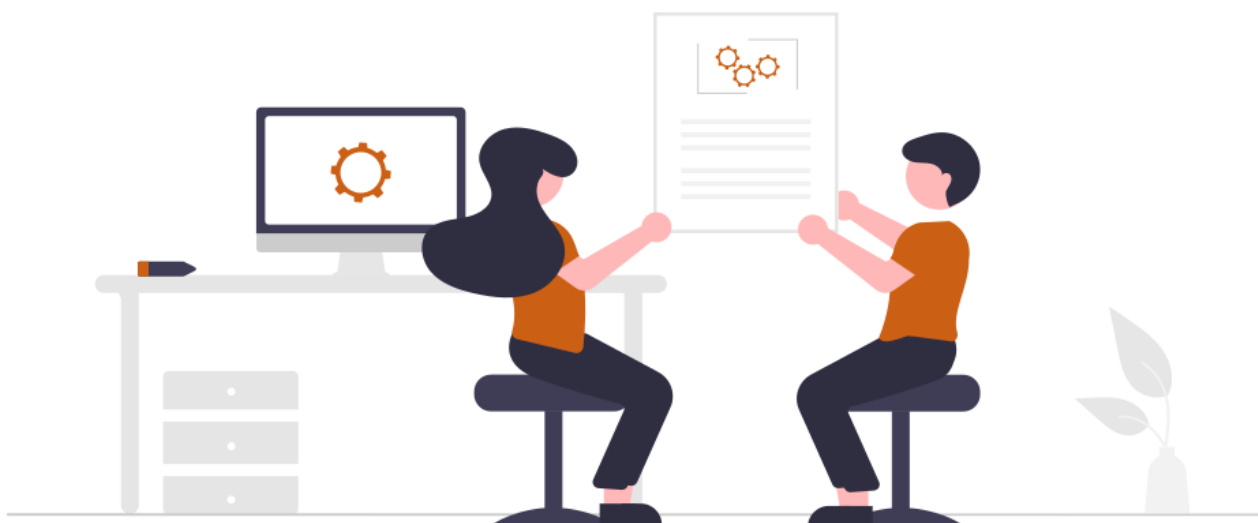


Below is a basic comparison between conducting a business in Slovakia via a **branch** and **limited liability company** as the most common forms used by foreign investors:

CRITERIA	LIMITED LIABILITY COMPANY (S.R.O.)	BRANCH
Minimum registered capital	EUR 5,000; fully subscribed and paid before registration.	N/A.
Minimum number of shareholders (in Slovak: <i>spoločník</i>)	One shareholder (an individual or legal entity) or more.	N/A.
Shareholders registration	Publicly disclosed in the Commercial Register.	The principal (parent company) is publicly disclosed in the Commercial Register.
Liability of the shareholders	Limited to the shareholding interest (in Slovak: <i>obchodný podiel</i>) in the registered capital.	Not limited to the branch. All rights and obligations arise directly for the parent company.

<p>Way of transfer of the shareholding interest</p>	<ul style="list-style-type: none"> Shareholding interest is transferred by way of a written agreement. Signatures of the signatories need to be certified by notary. Minority shareholding transfers are effective upon delivery of the agreement to the Company and majority shareholding transfers are effective upon registration with the Commercial Register. As of 17 July 2022, the same principle as for minority transfers shall apply also to majority shareholding transfers. If the shareholding interest is transferred to another shareholder, a resolution of the General Meeting of the company approving the transfer is required. If the shareholding interest is transferred to a third party, no restrictions by law apply. However, restrictions such as the right of first refusal in favour or another shareholder may be imposed by the Articles of Association of the company. 	<p>N/A.</p>
<p>Governing body structure</p>	<p><u>One-tier:</u> corporate governance bodies are:</p> <ul style="list-style-type: none"> General Meeting, which consists of all shareholders. It resolves on all fundamental matters regarding the company (such as amendment and supplementation of the Articles of Association; increase and decrease of the registered capital; transformation and winding-up of the company; appointment or release of the directors; etc.), and Director(s) – (in Slovak: <i>konateľ</i>) one or more individuals, appointed by the general meeting. He/she performs the day-to-day management and legal representation of the company before third parties. <p><u>Two-tier (optional):</u></p> <ul style="list-style-type: none"> General Meeting, Supervisory Board (appointed by the General Meeting, and must have at least three (3) members). It supervises the operation of the Company, and Director(s) 	<p>Manager of the branch, one or more individuals appointed by the parent company to perform legal representation of the parent company through the branch.</p>
<p>Requirements on statutory body</p>	<ul style="list-style-type: none"> age of at least 18 years; legal capacity; no criminal records; citizen of EU/OECD country, otherwise Slovak residence permit is required. 	<p>The same requirements as for Directors apply also to the Manager of the branch.</p>

Distribution of profit	Approval of the annual financial statements by the General Meeting and resolution on distribution of profit is a precondition for the payment of dividends. In certain cases, the statements shall be audited. In some cases, distribution of profit to shareholders is subject to further requirements to be met, but in general rules on free transfer of capital apply.	Flexible, no formal dividend distribution; can be transferred anytime.
Corporate tax	Taxable profits will be subject to corporate tax at the rate of 21%.	The branch is a permanent establishment of the foreign company in Slovakia for tax purposes. Taxable profits attributable to such permanent establishment are subject to corporate tax at the rate of 21%.
Financing	An s.r.o may be financed by its parent company by equity, contribution to so-called other capital funds (outside the registered capital) or by means of a shareholder loan.	The branch could be financed through the provision of funds from the head office, but such a provision of funds may not be regarded as a loan because the branch and the head office are part of the same legal entity.
Wage taxes	The company should report, withhold and remit to the tax authorities personal income tax and social security contributions of its employees.	The branch should report, withhold and remit to the tax authorities the personal income tax and social security contributions of its employees.
Timeline for establishment	Both a limited liability company and branch may be established within 10–15 business days, including obtaining the trade license, provided that the statutory body meets the requirements as outlined above.	



Moving your team to your new office in Slovakia



Immigration rules

Depending on citizenship and other circumstances, foreign (non-EU) nationals have number of alternatives for their longer-term stay in Slovakia. In addition to 90 days visa-free stay in Slovakia, at present Ukrainian people have following options:

- i. to apply for temporary refuge (easiest form of protection for those fleeing the war)
- ii. to apply for international protection/asylum, subsidiary protection (a rather lengthy proceeding granting permanent residence)
- iii. to apply for a temporary or permanent residence (this permit is required for doing business in Slovakia)



Temporary refuge

Temporary refuge is granted for the purpose of protecting foreigners from war, endemic violence, the consequences of a humanitarian disaster or persistent or massive human rights violations in their country of origin. Temporary refuge status is currently granted until 4 March 2023 and can be further extended by maximum of one year.



Who can apply for temporary refuge?

Citizens of Ukraine, persons who have enjoyed international or equivalent national protection in Ukraine, family members of citizens of Ukraine and persons with granted protection (if the family resided in Ukraine before 24 February 2022), and foreigners who are not citizens of Ukraine but are permanent residents of Ukraine and cannot return under safe and stable conditions to their country or region of origin.



Rights guaranteed by the temporary refuge status

- Tolerated stay permit for a displaced person
- Right to work without a work permit
- Access to education (school attendance is compulsory for all minor children)
- Access to healthcare (provided to those who can present an ID issued to temporary refuge applicants)
- Accommodation
- Material Need Benefit and other specific allowances



Temporary residence permit for the purpose of conducting business in Slovakia

Temporary refuge status does not allow foreign nationals in general (including Ukrainians) to conduct business as sole traders in Slovakia. Foreign (non-EU/OECD) nationals can conduct business in Slovakia either:

- as a sole trader; or
- via a Slovak company as a statutory body (e.g. director (in Slovak: *konateľ*)) only after receiving a permanent or temporary residence permit for the purpose of conducting business. The application for a residence permit must contain various documents, such as a document proving a clear criminal record and proof of financial coverage.

Foreign ownership of Slovak companies (i.e., the right to own shares or ownership interest) is not limited and thus, no requirement for a residence permit applies to such ownership. Accordingly, a shareholder of a Slovak company does not need to be its director and *vice versa*.



Remote working rules (Home-office)

Under the Slovak Labour Code, an employer is not entitled to unilaterally decide and order an employee to work from home or any other location. At the same time, employees need their employer's consent to work from home. Nonetheless, the employer and the employee can agree on a home-office regime.

All legal rights and duties of an employer pertaining to its employees apply also to its employees working from home. In this regard, it is highly recommended for employers to adopt practical policies or guidelines, e.g., on work safety and health protection, working time, employee accessibility, use of working tools and other practical matters on remote work that would reflect their legal obligations.

Setting up your office in Slovakia

An office can be easily set up with a minimal initial investment by renting offices through appropriate lease arrangements. Slovak law on the lease of non-residential premises is flexible and provides freedom of contract.

A lease agreement for non-residential premises must be concluded in writing and must contain:

- i. a description of the subject matter of the lease,
- ii. a specification of the amount of rent, the method of payment of rent and rent due date,
- iii. the purpose of lease and
- iv. the term of lease (unless concluded for an indefinite period).

Standard market provisions include:

Rent

Rent is usually calculated on a per-square-meter basis, paid on monthly basis and is subject to annual indexation (usually HICP - EUROSTAT).

Space

There is a distinction between net leasable area (which is the area of the leased premises) and gross leasable area (which is the area of the leased premises plus parts of the common areas serving only the leased premises). Space measurement must be agreed.

Operating expenses

Tenant usually pays most (or all) operating expenses directly related to the leased premises over the entire term of the lease.

Service charges

The maintenance, insurance and administration of an office building and its common areas is the responsibility of landlords, but the landlord typically passes through these expenses as well as the operating expenses for the common areas to the tenants by means of service charges. Such service charges are paid periodically, usually on monthly/quarterly basis.

Control of costs

In general, costs of space can be controlled by introducing indexation, caps and other contractual mechanisms. There could be audits to verify the actual amount of the service charges.

Fit-out

Fit-out works are usually done at the expense of the tenant. Various landlords, specifically in A-class office buildings, offer fit-out contributions to the tenant to cover certain or part of fit-out works. The tenant can deduct the costs for the fit-out works through tax depreciation charges.

Lease term

Lease-term provisions could be flexible, although landlords prefer the lease term to be unbreakable for the first 5-10 years. There are contractual mechanisms to ensure that the lease agreement will be binding for any new owner of an office building if the building is sold before the lease term expires. The lease agreement can be concluded also for indefinite period of time; in such case either party is entitled to terminate the lease agreement without stating a reason.

Termination

Statutory termination rights are set under the Act on the Lease of Non-Residential Premises. Additional termination rights can be agreed between parties, however, unilateral termination rights of the tenant are difficult to negotiate. In addition, there could be extensive termination grounds in case of the default of a tenant or landlord.

Sublease

Only with the prior consent of the landlord, unless agreed otherwise by the parties.

Renting an apartment

General provisions on renting of an apartment

Slovak law on the renting of an apartment is largely based on the contractual freedom of the parties with certain mandatory requirements and only limited restrictions. It distinguishes between short-term rent and long-term rent. The lease agreement must be in writing and mandatory requirements include the term of the lease and amount of rent agreed between the parties.

The tenant is usually responsible for repair works, however any alterations are subject to the consent of the landlord. In addition, a deposit is required from the landlord (in the amount of one to three months' rent). Termination is subject to statutory reasons.

Average rent in the capital city, Bratislava, as of 1 April 2022 is EUR 850/month and average rent per m² is EUR 13/month.

Short-term rent

Short-term lease agreements are concluded for period up to two years or up to maximum of six years subject to contractual extensions. The majority of lease agreements for apartments in Slovakia are short-term rents.

Long-term rent

Long-term lease agreements are concluded for period of more than two years or for an indefinite period. Generally, long-term rent provides stricter rules for tenants than short-term rent.

State Aid for accommodating citizens of Ukraine

Landlords who provide accommodation to citizens of Ukraine, subject to the fulfilment of certain mandatory requirements (e.g., temporary refugee registration/notification) are entitled to compensation through State Aid:

- i. EUR 7 for 1 night for person who has reached the age of 15;
- ii. EUR 3.5 for 1 night for person who has not reached the age of 15.

Maximum amount of state aid ranges from EUR 500 up to EUR 1,250 per month depending on the size of the accommodation.

Employment considerations



Individual employment contracts

- **In written form only** – mandatory requirements for its content under the Slovak Labour Code.
- Both **indefinite and fixed term of employment may be applied in an employment contract**; the duration of a fixed-term employment contract concluded between the same parties is limited by law (up to two years in total; possible extension - twice within two years).
- **Minimum wage requirements** – EUR 3.713 per hour (if remunerated on hourly basis with the working time arrangement of 40 hours per week) and EUR 646 per month (if remunerated on monthly basis).
- **Employees pay contributions** to social security (9.4%) and health insurance (4%) and income tax (19%–25%) **from their gross wage**. **Employer pays contributions** to social security (15.2%) and health insurance (10%) **on top** of employee's gross wage.
- Employers must **notify the relevant health insurance authority** within eight days from the first day of employment **and the district social security administration office** prior to the first day of employment.
- Employers must **notify the relevant regional labour office** of commencement/termination of a foreign national's employment within seven days of its commencement/termination.



Working hours and rest breaks

- Relatively strict rules apply to daily rest breaks, breaks for rest between consecutive working shifts and minimum uninterrupted break during a week.
- The length of standard weekly working hours for single-shift operation is 40 hours per week (38.75 hours for 2-shift operation; 37.5 hours for 3-shift/perpetual operation).
- Total permissible overtime work is 400 hours per year (up to 150 overtime hours may be unilaterally ordered by the employer, remaining 250 overtime hours may be agreed with the employee).
- Average weekly working hours cannot exceed 48 hours per week including overtime work.
- The statutory minimum annual paid leave is 20 working days, but may be more for some categories of employees.
- Approximately 13 days per year of paid public holidays, not included in the leave.



Termination of employment contracts

- An employment relationship may be terminated by agreement, notice of termination, immediate termination or termination within a trial period.
- An employer may give a notice of termination to its employees only on limited grounds explicitly provided in the Slovak Labour Code. Termination notice for no reason, or reason other than provided by law, is not permitted.
- Some employees enjoy special legal protection against the termination of their employment (e.g. employees on maternity/parental leave or employees who were recognized as temporarily unfit for work).
- The statutory regulation provides for one-off financial compensation by means of severance payment in case of termination for organisational reasons, the minimum amount of which is set forth in multiples of the employee's average monthly wage.

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Working together since 1993, Kinstellar's senior team in Bratislava has a proven track record acting on behalf of a diverse range of leading international, regional and local market participants, including multinational companies, banks and multilateral financial institutions, leading domestic companies, and state agencies and institutions.

Our expertise covers Slovakia's range of business sectors, including automotive, energy, infrastructure, real estate, manufacturing, banks and financial institutions, IT, telecommunications, and healthcare. Our lawyers speak a wide range of languages including Ukrainian and Russian, which enables us to identify the colleagues with the right language skills for each client.

Our Bratislava office is ranked highly by the international legal directories, with particularly strong corporate and M&A, banking and finance, employment and real estate service lines and numerous individual rankings of members of our senior team.

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