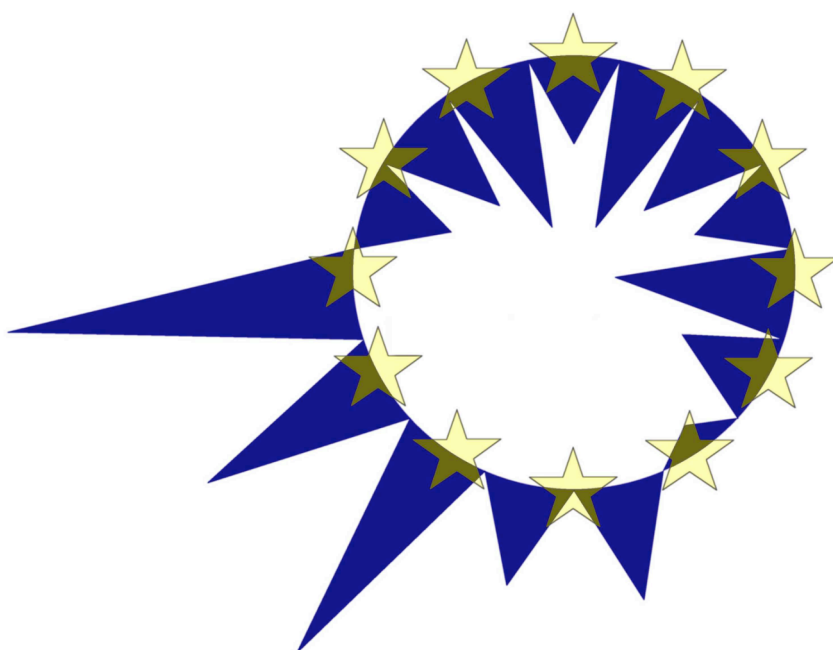


EUROMOD

FEASIBILITY STUDY



Feasibility Study

SLOVAK REPUBLIC
(TAX-BENEFIT SYSTEMS 2006-2009)

Marek Porubsky

November 2009



About EUROMODupdate

A major EUROMOD development project is being supported by the European Commission DG Employment with the key objective to improve and extend EUROMOD's usefulness as a tool for policy-relevant research and policy monitoring. This will involve

- 1) updating EUROMOD to cover recent policy systems;
- 2) enlarging EUROMOD from 19 countries to cover all 27 Member States
- 3) upgrading EUROMOD to operate using EU-SILC (European Union Statistics on Income and Living Conditions) data as the input database;
- 4) re-building the "old" EU-15 using the most recent version of EUROMOD software; and
- 5) developing methods and processes that facilitate the efficient updating of EUROMOD in the future.

In doing so the project will encourage the widest use of EUROMOD in research and policy analysis at the national and international levels.

The project began in February 2009 and will last 3 years. The aim is to upgrade or newly construct in EUROMOD a selection of 9 or 10 countries each year, and to then update them in subsequent year(s).

The work is being carried out by the EUROMOD *core developer team*, based mainly in ISER, in collaboration with a group of *national teams*. The *European Centre* is responsible for establishing contacts and working relationships in the New Member States in order to explore the feasibility of bringing them into EUROMOD.

A project Steering Group has been established, under the chairmanship of *Sir Tony Atkinson*.

The main task of the *Feasibility Studies* is to lay the foundations for integration of the New Member States in EUROMOD, alongside the EU15, and therefore they all include:

- 1) key features of national tax-benefit systems;
- 2) identification of appropriate data requirements and data sources;
- 3) consideration of issues relevant for modelling each tax-benefit instrument (tax evasion, non take-up of benefits, etc.).

For more information, see: <http://www.euro.centre.org/euromod> and <http://www.iser.essex.ac.uk/research/euromod>

Author information:

Marek Porubsky, Financial Policy Institute / Ministry of Finance,
e-mail: marek.porubsky@mfsr.sk

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Introduction and Motivation

The main purpose of this document is to evaluate the possibility of building a tax-benefit microsimulation model for Slovakia using the EU-SILC as an input database. This model will be a part of EUROMOD – a broad model which currently integrates all old EU-15 countries and 4 NMS. EUROMOD is an aggregate microsimulation tax-benefit model focused mainly on direct taxes, social contributions and cash benefits. It is a static tax-benefit model that takes into account only over-night-effects of a policy change, it does not simulate behavioral changes.

The main advantage of microsimulation models lies in their capacity to estimate distributional effect of a given policy proposal on particular groups of population, breaking them down by various criteria: sex, age, household structure, region, labor market status and so on. EUROMOD therefore represents a very useful tool for comparing tax and benefit systems across EU as well as for finding the best practice within these countries. In the recent years, Slovakia successfully implemented crucial reforms of the tax and benefit system. These tax and social reforms have drawn the attention of international institutions, governments and researchers from many countries. EUROMOD would therefore provide an excellent opportunity to analyze and compare the Slovak system with other countries.

The reference date for the tax-benefit system description is 30.6.2006. All important changes in the following period are described in grey boxes.

All figures in the feasibility study are stated both in Slovak crowns and Euros. The exchange rate to euro for particular years can be found in appendix.

1 Basic information about Slovak tax benefit system

In recent years, Slovakia introduced several reforms aimed mainly at lowering the tax burden, improving the business environment, strengthening labour market flexibility and ensuring the overall efficiency and long-term sustainability of public finances. The reforms concentrated mainly on the tax system, fiscal decentralization, the benefit system (including pension system), health care and public finance management.

Tax-benefit system and government budget				
	Total general government revenue % of GDP	Total tax receipts % of GDP	Total general government expenditure % of GDP	Social protection % of GDP*
2006	33.5	29.3	36.9	12.4
2007	32.5	29.2	34.4	10.6
2008	32.7	29.2	34.9	N/A

Source: Eurostat

Social protection expenditure by function (as % of total social protection expenditure)							
	Sickness/ health care and disability	Old age	Survivors	Family/ children	Unemployment	Housing	Social exclusion
2006	15.3	54.6	7.6	10.0	1.4	0.0	4.7
2007	15.1	53.0	7.7	12.7	0.9	0.0	4.7
2008	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: Eurostat (COFOG)

Taxation (as % of total tax receipts)					
	Personal income tax	Corporate income tax	Social security contributions*	Indirect taxes	Other taxes
2006	8.5	9.9	40.0	35.2	6.4
2007	8.6	9.9	39.7	35.2	6.6
2008	N/A	N/A	N/A	N/A	N/A

Note: On 1 January 2005 Slovakia introduced the fully funded pillar (private) of the pension system. Proportion (9 percentage points) of social contributions paid by the employer flows directly to private pension funds and not to social insurance agency as in previous years. Private pension funds are according to agreement with Eurostat treated outside of general government since 2007.

- Main components of the Slovak tax system are income tax, value added tax, excise taxes and social security contributions. Parameters of these taxes are set by the central government which also collects all revenues (except PIT where local governments gets 93.8% of total tax receipts). Only a few taxes are set by the local governments, such as real estate tax, motor vehicle tax, but the share of these taxes in overall taxation is negligible.
- The benefit system is governed mainly at the central government level. No important benefits are determined at the local government level.
- Parameters of the personal income tax and the social security contributions (which are the two most interesting parts of the tax system from the modeling point of view) are automatically indexed annually – i.e. tax allowances in personal income tax and upper contribution limit (maximum assessment base) for social security contributions. On the benefit side, for most parameters there is no legal automatic indexation.
- The fiscal year in Slovakia is 1 January - 31 December.

2 Detailed description of the parameters of policy instruments

This section describes particular components of the Slovak tax-benefit system parameters at 30 June 2006. Main changes in the following years are described in grey boxes. Those components, which are not suitable for modeling due to restrictions either in EU-SILC database or in model itself, are described only briefly.

2.1 Personal income tax (Daň z príjmu fyzických osôb)

In 2004, Slovakia introduced new flat tax rate system with tax allowances and tax credit on dependent child. Primary goal of the tax reform was to encourage business activity, to enhance the long-term and sound economic growth. From the government budget point of view, compared to other EU countries, personal income tax is in Slovakia less important revenue source as it comprises 8.5% of the overall tax revenue.

Personal income tax , year 2006			
ESA95	SKK mil.	EUR mil.	% of GDP
Personal income tax	51,306	1,378	2.5
- income from employment (dependent activity)	44,534	1,196	2.2
- income from self-employment	6,771	182	0.3

Ministry of Finance, EC: Taxation trends in the EU

The personal income tax base is gross income including wages and salaries, income from business activities, fringe benefits, capital incomes (except dividends), interest payments and incomes from rent. Social security benefits (pension, sickness benefit, unemployment benefits etc) and all social benefits (material need benefits, child benefit etc.) are incomes exempted from taxation. Tax unit is an individual, i.e. employee or self-employed person. Joint taxation is not allowed. Although the central government sets the rules, the revenue is split between central (6.2%), higher territorial units (23.5) and municipalities (70.3%).

Tax period is defined as a year. Tax advances are paid monthly or quarterly based on previous tax liability. An employee, who has earned only income from employment, may request his employer to perform the annual clearing of his tax advances not later than three months following the last day of the tax period, i.e. by 31 March.

Tax return and the report must be submitted not later than three months following the last day of the tax period, i.e. by 31 March. The taxpayer must pay the tax by the same date.

Taxable incomes - incomes that are subject to personal income tax

- Income from employment : gross wages in cash and in kind
- Income from self-employment : income from business, other independent gainful activity and tenancy
- Income derived from capital and other revenues: interest income, supplementary private pensions (third pillar)

Tax-exempted incomes - incomes that are not subject to personal income tax

- social insurance benefits (i.e. pensions), health insurance benefits,
- social benefit, health care allowance, activation allowance, back-to-work allowance, housing allowance, protection allowance, lump-sum benefit for material distress
- funeral benefit, child birth grant, multiple birth benefit, child benefit, parental allowance, social

- assistance benefits for severely disabled people, foster care allowances
- income from dividends, credits, income from transferred, gifted or inherited immovable property

Tax base is generally defined as taxable incomes minus social security contributions¹ (SSC) for employees and taxable incomes minus tax-deductible expenses (including SSC) for self-employed. Taxpayer is allowed to deduct his previous losses from the tax base. Losses may be carried forward for a period of five years. Moreover, there are three tax allowances (TA) that can be deducted from the tax base.

Social security contributions (SSC) consist of social insurance and health insurance contributions. Both are calculated as a percentage from assessment base (which are gross incomes or business and paid by employees and employers. In comparison to personal income tax base, social assessment base consists mainly of occupational incomes and there is a upper limit for the assessment base that contributions are calculated from (maximum assessment base).

Tax allowances reduce the tax base. There are three types of tax allowance in Slovakia.

Tax allowance description	Calculation formula / amount (annual)
<p>Basic tax allowance (BTA) can be deducted from the tax base of each taxpayer i.e. each person having taxable incomes. This number is calculated annually according to the minimum subsistence level development (MSL) valid on 1 January. Basic tax allowance is applied on a monthly basis.</p> <p>For taxpayer, who receives old-age pension, early old-age pension, disability pension the individual tax allowance equals to:</p> <ul style="list-style-type: none"> - if pension is lower than basic tax allowance - if pension is higher than basic tax allowance 	<p>19.2 x MSL (SKK 90,819 ; EUR 24,39.1)</p> <p>BTA - pension no entitlement</p>
<p>Spouse tax allowance (STA) - taxpayer can also lower his/her tax base, if his/her spouse has no income or his/her income is below the basic tax allowance. Spouse tax allowance can be applied on a monthly basis.</p> <p>Incomes of the spouse include gross incomes and social insurance benefits. The tax credit, social assistance benefits and scholarships are not considered as an income.</p>	<p>BTA – incomes of the spouse</p>
<p>Supplementary pension saving allowance: each taxpayer can lower his tax base by deducting the amount of paid supplementary pension savings up to limit of SKK 12,000 - third pillar of the pension scheme.</p> <p>Special purpose saving allowance: each taxpayer can lower his tax base by deducting the amount of special purpose savings paid up to limit of SKK 12,000 – e.g. to banks or mutual funds</p> <p>Life insurance allowance – the same principle is applied as in previous cases</p> <p>These three tax allowances are considered together so nobody can deduct more than SKK 12,000 a year and can be applied only on an annual basis i.e. in tax clearing.</p>	<p>no formula – only maximum defined (SKK 12,000 ; EUR 322.3)</p>

¹ Including contributions paid to second pillar of the pension system

<i>Common conditions of eligibility:</i> <ul style="list-style-type: none"> - maximum annual amount that can be deducted is set as SKK 12,000 (to reach SKK 12,000 these three allowances can be combined) if: - the minimum time of participation in the special purpose saving system must be 10 years - cannot claim for early benefits before reaching the age of 55 years 	
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Tax rate – flat rate 19% for all taxpayers.

Tax credit on each dependent child is a form of negative tax. It is deducted from the tax liability. If the tax credit is higher than the tax liability, the excess is paid to the taxpayer (negative tax). Only one parent (they can decide who will claim for the tax credit) can deduct the tax credit from his/her tax liability or receive the tax credit payment. Since 1 January 2006, the annual amount of the credit on dependent child is SKK 6,480, i.e. SKK 540 per month.

Tax credit on dependent child	SKK	EUR
child/month	540	14,5

Definition 1 - Dependent child

- child under 16 years participating in the compulsory school attendance (9 years),
- child until completion of education, studying at an approved educational institution - high school, university (but not after reaching the age of 26 years)
- child with long-term unfavourable health conditions until reaching the age of 26 years

The entitlement for the tax credit arises only with economic activity of the entitled person i.e. annual taxable incomes or annual business revenue must reach at least 6 times the minimum wage.

Tax liability calculation sequence		
1	partial tax base from dependent activity	= \sum of gross wages – \sum of social contrib.
2	partial tax base from self employment	= \sum of business revenues – \sum of tax deductible expenses (carry loss forward can here also be applied)
3	partial tax base from capital gains and other revenues	= \sum of business revenues – \sum of tax deductible expenses
4=1+2+3	Tax base before allowances	
5	Tax allowances	= total sum of eligible tax allowances
6=4-5	Tax base	
7	Tax rate	flat 19% tax rate
8=6*7	Tax liability	
9	Tax credit on dependent child (if eligible)	non-wastable tax credit
10=8-9	FINAL TAX LIABILITY	tax liability or negative income tax (transfer)

Withholding tax is part of PIT, although recorded as a separate tax. It is levied on income (19%) originating from sources in the territory of the Slovak Republic:

- interest, winnings and other income from deposits
- interest, bonuses and other forms of yield from bonds and similar securities
- prizes in cash won in lotteries and other similar games
- income earned under a supplementary pension savings scheme
- paid under an insurance policy for the attainment of a certain age

Changes in 2007 - 2009

Several PIT changes were implemented in the tax system in years 2007, 2008 and 2009.

2007

1. 1 January 2007 regressive basic tax allowance and spousal allowance was introduced. That means that tax allowance of tax payers with higher incomes (approximately upper 6% of taxpayers according to the wage distribution) starts decreasing according to the set formula. Main goal of this measure was to keep flat tax rate system of 19% unchanged, but at the same time increase progressivity of the tax system. The new formula looks as follows:

$$\text{BTA} = 19.2 \times \text{MSL} - [(\text{Tax base before allowances} - 100 \times \text{MSL}) \times 0.25]$$

$$\text{STA} = 19.2 \times \text{MSL} - [(\text{Tax base before allowances} - 176 \times \text{MSL}) \times 0.25] - \text{incomes of the spouse}$$

The value in parentheses must not be negative.

2. As of 1 January 2007, in calculating spousal tax allowance, social security contributions are deducted from gross incomes of the spouse.
3. Since year 2007, the tax credit is annually indexed to minimum subsistence level (MSL) on 1 July

2009

1. On 1 January the basic tax allowance and the spousal allowance has been temporarily increased from 19.2 times the MSL to 22.5 times the MSL. At the same time, the starting point (level of income) where the basic tax allowance starts decreasing has been lowered. The measure aimed to reduce the tax burden on middle and low-income persons, i.e. to increase their disposable income, which should translate into a higher aggregate demand. As this is anti-crisis measure it will only be applied during the 2009 and 2010 tax periods.

$$\text{BTS} = 22.5 \times \text{MSL} - [(\text{Tax base before allowances} - 86 \times \text{MSL}) \times 0.25]$$

$$\text{STA} = 22.5 \times \text{MSL} - [(\text{Tax base before allowances} - 176 \times \text{MSL}) \times 0.25] - \text{incomes of the spouse}$$

The value in parentheses must not be negative.

2. In 2009, employee tax credit was introduced. It is a form of negative income tax that complements the existing personal income tax system. Whenever the wage drops below a certain threshold, employees will not pay zero tax as before, but will receive a pro-rata transfer from the state instead. The tax credit targets a specific group as it only applies to low-income taxpayers.

In line with the defined objectives, the employee tax credit was so designed that it can only be claimed by low-income employees whose wages are subject to the payment of social and health insurance contributions. For the above reasons,

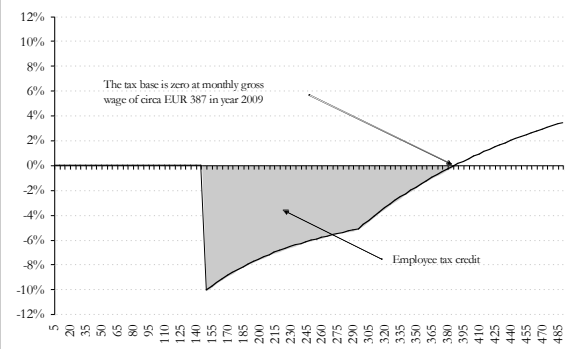
- the tax credit only applies to income from employment (dependent activity) – i.e. income from regular employment, which may be concurrently combined only with income based on a contract for the performance of work and income that is subject to withholding tax (interest, participation certificates, etc.), as long as the taxpayer considers the tax related to such income to have already been paid (and the taxpayer thus refrains from claiming basic tax allowance in respect of such income in the tax return).
- no entitlement arises with respect to other types of income or concurrent earning of other types of income – i.e., income from business activities, rental, share of profit, etc.

In terms of employee tax credit entitlement, it is necessary to underpin its motivating effects while preventing any misuse. For the above reason, the tax credit can only be claimed after having complied with the following criteria:

- the taxpayer's income over the tax period must be at least six-times higher than the minimum wage
- the taxpayer must have worked for at least six months.

Total time worked means a period during which employees earn their income from dependent activity – the months during which employees only receive benefits (sickness benefit, maternity benefit) or earn income from dependent activity on the basis of contracts for the performance of work, or a combination thereof, are not included in such period.

Average tax rate
(PIT / gross wage, in %)



Source: Ministry of Finance

Employee tax credit amount
(monthly average, in EUR)



Source: Ministry of Finance

Due to extensive paperwork it was decided that the tax credit can be paid within the framework of the annual clearing of tax advances or by filing a tax return.

2.2 Social insurance contributions (Sociálne poistenie)

Social insurance contributions in Slovak republic consists of the sickness insurance, old-age insurance, disability insurance, unemployment insurance, reserve solidarity fund, accident insurance and guarantee insurance.

Employees pay:	Sickness insurance, Old age insurance, Disability insurance, Unemployment insurance
Employers pay:	Sickness insurance, Old age insurance, Disability insurance, Unemployment insurance, Reserve solidarity fund, Accident insurance and Guarantee insurance
Self-employed pay:	Sickness insurance, Old age insurance, Disability insurance, Reserve solidarity fund

Social insurance contributions, year 2006			
	SKK mil.	EUR mil.	% of GDP
Social insurance - economic active	119,568	3,211	7.2%
employees (incl. employers)	110,958	2,980	6.7%
self-employed	7,572	203	0.5%
voluntary insured	1,037	28	0.1%
Government - on behalf of specific groups	4,822	130	0.3%

Social insurance contributions are calculated as a percentage from the social insurance assessment base (SIAB) which is a base of gross incomes that are subject to social insurance contributions. The assessment base for social insurance contributions is compared to personal income tax base narrower as social insurance is levied only on occupational incomes, not capital incomes. For employees and their employers, the assessment base is gross income (wage, salary etc). For self-employed assessment base is calculated as follows:

$$SIAB_{\text{monthly}} = \frac{(\text{partial tax base from self-employment})}{12} / 2$$

There is a maximum social insurance assessment base, which is linked to the average wage in the economy.

Maximum assessment base for the social insurance (monthly)			
Sickness insurance	1.1-30.6	=	1.5 * AW _(t-2) ²
	1.7-31.12	=	1.5 * AW _(t-1) ¹
Old-age insurance	1.1-30.6	=	3.0 * AW _(t-2)
	1.7-31.12	=	3.0 * AW _(t-1)
Disability insurance	1.1-30.6	=	3.0 * AW _(t-2)
	1.7-31.12	=	3.0 * AW _(t-1)
Unemployment insurance	1.1-30.6	=	3.0 * AW _(t-2)
	1.7-31.12	=	3.0 * AW _(t-1)
Reserve solidarity fund	1.1-30.6	=	3.0 * AW _(t-2)
	1.7-31.12	=	3.0 * AW _(t-1)
Guarantee insurance	1.1-30.6	=	1.5 * AW _(t-2)
	1.7-31.12	=	1.5 * AW _(t-1)
Accident insurance	no ceiling		

1 – Average monthly wage in the previous year

2 - Average monthly wage n the year before the previous year

Social insurance contributions rates overview (%)							
	EMPLOYEE& EMPLOYER						SELF- EMPLOYED & VOLUNTARY PAYER
	PAYG system		Combined system (since Jan 2005)				
			PAYG pillar		2nd pillar		
	employee	employer	employee	employer	employee	employer	
Sickness insurance	1.40	1.40	1.40	1.40	-	-	4.40
Old-age insurance	4.00	14.00	4.00	5.00	-	9.00	18.00 into PAYG or 9.00 into PAYG+ 9.00 into 2nd pillar
Disability insurance	3.00	3.00	3.00	3.00	-	-	6.00
Unemployment insurance	1.00	1.00	1.00	1.00	-	-	2.00 (voluntary)
Reserve solidarity fund	-	4.75	-	4.75	-	-	4.75
Accident insurance	-	0.80	-	0.80	-	-	-
Guarantee insurance	-	0.25	-	0.25	-	-	-
Σ	9.4	25.2	9.4	16.2	0.0	9.0	
			39.6		9.0		
	34.6		34.6				33.15

In January 2005, the second pillar of the pension system was introduced. Under the new system, 9% of pension contributions paid by the employer flow directly to private pension funds and not to the Social Insurance Agency as in previous years, thus reducing employer's contributions to the first pillar from 14% to 5% of the employee's gross income. Participation in the second pillar has been made mandatory for all individuals starting work on or after 1 January 2005. Other individuals (i.e. those employed prior to 1 January 2005) had to decide by 31 June 2006 whether to participate in the second pillar or rely solely on the first pillar. As expected, the introduction of the second pillar led to a reduction of contributions to the Social Insurance Agency. The shortfall of revenues represented 0.8% of GDP in 2005 and 1.2% of GDP in 2006

Pensioners are not obliged to pay social insurance if they remain on the labour market while receiving their pensions. Hence, if employed pensioner becomes sick or unemployed, the entitlement arises neither for sickness nor for unemployment benefit.

Changes in 2007 – 2009

2008

On 1 January 2008 the maximum assessment base (contribution ceiling) for old age insurance contributions, disability insurance contributions, reserve solidarity fund contributions and unemployment insurance contributions was increased from three to four times the average wage. In spite of the fact that the pension system is earning related, no additional pension rights from first pillar will result from this measure in future (pension entitlement calculation did not change) – only second pillar pensions will be affected as more savings will accumulate.

The exception for pensioner from paying sickness insurance was abolished in 2008. Pensioners are obliged to pay sickness insurance if they have income from work.

2.2.1 *Sickness insurance*

Insurance against income loss or income decline in the case of temporary work disability, pregnancy or maternity of insured person.

Who pays:

- employee - compulsorily insured
- employer - pays the insurance on behalf of his employee compulsorily
- self-employed - compulsorily insured, if his/her previous year's gross profit was higher than 12 times the minimum wage
- voluntary payer - after reaching the age of 16 years with permanent residence or residence permit

Self employed

- if his/her previous year's turnover (in year t) was higher than 12 times the minimum wage, then starting on 1.7. in the current year (year t+1) becomes compulsorily sickness insured – i.e. he has to start paying the sickness insurance on 1.7. in the t+1 year
- if his/her previous year's turnover (in year t) was lower than 12 times the minimum wage, then starting on 1.7. in the current year (year t+1) the obligation to pay the sickness insurance disappears.

Sickness insurance rates	
employee	1.4% from the assessment base
employer	1.4% from the assessment base
self-employed	4.4% from the assessment base
voluntary payer	4.4% from the assessment base

Excluded persons from the obligation to pay sickness insurance:

- disability pensioner with more than 70 % decline of the work capability
- old age pensioner

Insurance payment interruption - not required to pay the sickness insurance if:

Employee:

- draws the maternity benefit
- nurses sick child, spouse, parent or spouse's parent – until the 10th day (including)
- takes care of a child aged up to 10 years – until the 10th day (including)
- during the period of temporary work incapacity – i.e. when drawing the temporary work incapacity compensation paid by employer (first 10 days of temporary work incapacity) or when drawing the sickness cash benefit

Employer:

- if his employee is not required to pay the sickness insurance

Self-Employed:

- during the period of temporary work incapacity – i.e. when drawing the sickness cash benefit

2.2.2 *Old-age insurance*

Insurance for ensuring incomes in retirement.

Who pays:

- employee - who is compulsorily sickness insured
- employer - on behalf of his employee
- self-employed - who are compulsorily sickness insured

- voluntary payer - after reaching the age of 16 years with permanent residence or residence permit

Old-age insurance rates	
employee	4% from the assessment base into first pillar
employer	14% from the assessment base (2 possibilities) 14% into first pillar or 5% into first pillar and 9% into second pillar
self-employed	18% from the assessment base (2 possibilities) 18% into first pillar or 9% into first pillar and 9% into second pillar
voluntary payer	18% from the assessment base (2 possibilities) 18% into first pillar or 9% into first pillar and 9% into second pillar

Insurance payment interruption - not required to pay the old-age insurance if:

Employee:

- draws the maternity benefit
- nurses sick child, spouse, parent or spouse's parent – until the 10th day (including)
- takes care of a child aged up to 10 years – until the 10th day (including)
- during the period of temporary work incapacity – i.e. when drawing the temporary work incapacity compensation paid by employer (first 10 days of temporary work incapacity) or when drawing the sickness cash benefit

Employer:

- if his employee is not required to pay the sickness insurance

Self-Employed:

- during the period of temporary work incapacity – i.e. when drawing the sickness cash benefit

2.2.3 Disability insurance

Characterized as insurance against the reduction of earning capability caused by the long-term unfavorable health conditions.

Who pays:

- employee - who is compulsorily sickness insured
- employer - on behalf of his employee
- self-employed - who are sickness compulsorily insured
- voluntary payer - after reaching the age of 16 years with permanent residence or residence permit

Disability insurance rates	
employee	3% from the assessment base
employer	3% from the assessment base
self-employed	6% from the assessment base
voluntary payer	6% from the assessment base

Excluded persons from the obligation to pay unemployment insurance:

- disability pensioner with more than 70 % decline of the work capability,
- old age pensioner

The disability insurance can be temporarily interrupted when:

Employee:

- draws the maternity benefit
- nurses sick child, spouse, parent or spouse's parent – until the 10th day (including)
- takes care of a child aged up to 10 years – until the 10th day (including)
- during the period of temporary work incapacity – i.e. when drawing the temporary work incapacity compensation paid by employer (first 10 days of temporary work incapacity) or when drawing the sickness cash benefit

Employer:

- if his employee is not required to pay the sickness insurance

Self-Employed:

- during the period of temporary work incapacity – i.e. when drawing the sickness cash benefit

2.2.4 Unemployment insurance

Insurance against the loss of earning capability caused by the unemployment.

Who pays:

- employee - who is compulsorily sickness insured
- employer - on behalf of his employee
- voluntary payer - after reaching the age of 16 years with permanent residence or residence permit

Unemployment insurance rates	
employee	1% from the assessment base
employer	1% from the assessment base
voluntary payer	2 % from the assessment base

Excluded persons from the obligation to pay unemployment insurance:

- disability pensioner
- old-age pensioner
- person in prison (if works)

The unemployment insurance can be temporarily interrupted when:

Employee:

- draws the maternity benefit
- nurses sick child, spouse, parent or spouse's parent – until the 10th day (including)
- takes care of a child aged up to 10 years – until the 10th day (including)
- during the period of temporary work incapacity

Employer:

- if his employee is not required to pay the unemployment insurance

Self-Employed:

- during the period of temporary work incapacity – i.e. when drawing the sickness cash benefit

2.2.5 Reserve solidarity fund

Reserve solidarity fund insurance serves to cover the financial shortage for old-age and disability benefits.

Who pays:

- employer - on behalf of his employee
- self-employed - sickness compulsorily insured self-employed
- voluntary payer - after reaching the age of 16 years with permanent residence or residence permit

Reserve solidarity fund insurance rates	
employer	4.75% from the assessment base
self-employed	4.75% from the assessment base
voluntary payer	4.75% from the assessment base

2.3 Health insurance contributions (Zdravotné poistenie)

Who pays :

- employee
- employer- on behalf of his employee
- self-employed
- central government
- unregistered unemployed – i.e. those who are not listed in the unemployment registry are obliged to pay health insurance by themselves (government pays only for registered unemployed)

Health insurance contributions, year 2006			
	SKK mil.	EUR mil.	% of GDP
Health insurance - economic active	55,169	1,482	3.3%
Government - on behalf of specific groups	23,394	628	1.4%

Health insurance rates	
employee	4% from the assessment base (2% - for physically handicapped)
employer	10% from the assessment base (5%- for physically handicapped)
self-employed	14% from the assessment base (7%- for physically handicapped)
voluntarily unemployed	14 % from the assessment base

Central government pays the health insurance on behalf of:

- dependent child
- registered unemployed person (listed in the unemployment registry)
- person drawing the old-age and disability pension except of the widow's and widower's pension and orphan's pension
- person drawing the Sickness cash benefit, Benefit for nursing a sick relative, Maternity benefit
- person drawing the Social benefit, Health care allowance, Activation allowance- Back-to-work allowance, Housing allowance, Protection allowance, Lump-sum benefit for material distress
- parental allowance entitled person
- foreign student
- prisoner

If they have their own income (e.g. part-time job, summer job or other) then:

- if assessment base < ½ of the minimum wage then : government pays
- if assessment base > ½ of the minimum wage then : pay by themselves – 14%

e.g. if student, old-age pensioner, voluntarily unemployed works part-timely for 5 months and his income is higher than 5x 1/2 of the minimum wage, then he becomes obliged to pay the health insurance by himself i.e. 14% from his income at the end of year.

Health insurance contributions are calculated as a percentage from the health insurance assessment base (HIAB) which is base of incomes that are subject to social insurance contributions. Assessment base for health insurance contributions is compared to personal income tax base narrower as health insurance is levied only on occupational incomes and not on capital incomes. For employees and their employers, the assessment base is gross income (wage, salary etc). For self-employed assessment base is calculated as follows:

$$HIAB_{\text{monthly}} = \frac{(\text{tax base (before allowances)} + \text{health insurance contributions paid})}{12} \cdot 2.14$$

There is also a minimum and a maximum health insurance assessment base that depends on the minimum wage and on the average monthly wage (AMW) in the economy. Since 2006, health insurance contributions are computed on annual basis – insurance is paid monthly from monthly assessment base but at certain date the difference is cleared (annual clearing). The difference occurs to those, whose monthly assessment base exceeds the maximum assessment base in some months – due to wage bonus.

Maximum assessment base for the health insurance	
Employee	3 x AW _{t-2} ¹
Employer	3 x AW _{t-2}
Self-employed	3 x AW _{t-2}

1- average monthly wage in the year t-2

Changes in 2007 – 2009

In years 2007, 2008, 2009 no significant change of the health insurance was adopted

2.4 Other taxes

2.4.1 Value added tax

The value added tax is one of the most important general government budget sources. The importance of value added tax has further increased in 2004 as the new tax system became operational. On 1 January 2004, two value added tax rates (14% and 20%) have been unified into one common 19 % tax rate. Value added tax is levied on supply of all goods and services (there are some exceptions) in Slovak republic and on import of goods and services into Slovak republic.

Value added tax, year 2006			
ESA95	SKK mil.	EUR mil.	% of GDP
Value added tax	123,629	3,320	7.5%

Changes in 2007 – 2009

A lower VAT rate at 10% was introduced on medicaments, medical aid tools in **2007** and on books in **2008**.

2.4.2 Excise taxes

Indirect taxes that are selectively levied on certain products – beer, wine, tobacco products, spirits and mineral oils. They are an important government resource of tax revenues as they account for 2.9% of GDP.

Excise taxes, year 2006			
ESA95	SKK mil.	EUR mil.	% of GDP
Excise taxes	47,876	1,286	2.9%
- on mineral oil	32,836	882	2.0%
- on spirit	5,090	137	0.3%
- on beer	1,949	52	0.1%
- on wine	112	3	0.0%
- on tobacco	7,889	212	0.5%

Excise taxes	Unit	Tax per unit (SKK)	Tax per unit (EUR)
Mineral oil			
- unleaded petrol	1,000 l	15,500	416.29
- gas oil	1,000 l	14,500	389.43
Spirit			
- base rate	1,000 l	28,300	760.06
Beer			
- base rate	Plato/hl	50	1.34
Wine			
- still wine	1,000 l	0	0
- sparkling wine	1,000 l	2,400	64.46
Tobacco			
- cigars	piece	1.40	0.04
- tobacco	kg	1,350	0.04
- cigarettes	piece , % of the package (retail) price	1.10 pc + 23% of the package price (but min.1.7 pc)	0.03 pc + 23% of the package price (but min.0.05 pc)

*pc- per cigarette/ cigar

2.4.3 Local taxes (Miestne dane)

On 1 January 2005, new system of local and regional government funding (municipalities – local government and VUC's – regional governments) has been established. It has strengthened tax revenues of municipalities and set revenues of VUC's. Important revenue source of local government is personal income tax, as its revenues are shared by central government (6.2%), VUC's (23.5%) and municipalities (70.3%). In this section we will not deal with PIT, as it is already described above.

Municipality:

- real estate tax (of lands, buildings, flats),
- charges for a dog,
- tax on public area employment,
- accommodation tax,
- tax on vending machines,
- tax on non-win gambling machines,
- tax on entry and parking of a motor vehicle within the historical area of a city,
- tax on nuclear facilities,
- obligatory local charge for municipal waste and minor construction waste,

Municipality, which conducts administration of these taxes, may determine, at its own discretion within a general statutory regulation, how to impose them within its own territory.

VUC:

- motor vehicle tax

Motor and towed vehicles that are used for entrepreneurship are subject to this tax. VUC's decide at their own discretion within a general statutory regulation of a specific tax rate valid within their area.

2.5 Social insurance system – contributory benefits

2.5.1 *Sickness benefits*

Compensates for lost or income reduction caused by temporary sickness, pregnancy and maternity i.e. temporary work incapacity (up to 12 months). Consist of four different benefits: sickness cash benefit, benefit for nursing a sick relative, equalization allowance and maternity benefit.

Sickness cash benefit

The benefit cannot be received simultaneously with the maternity benefit or the parental allowance. However, this is not the case for those, who receive a reduced parental allowance.

Employee:

The entitlement arises due to illness or injury on the **11th** day of the employee's temporary work incapacity (for the first 10 days of temporary work incapacity receives compensation from the employer) and lasts until the end of employee's work incapacity, becoming disabled or at latest until the end of 52nd week – cannot receive the sickness cash benefit more than 1 year.

sickness cash benefit	55% of the daily assessment base starting on the 11 th day of temporary work incapacity. Assessment base means basically gross incomes that are subject to social insurance contributions.
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For the first 10 days of temporary work incapacity, the employee receives compensation from his employer (the sickness cash benefit is paid by employer not by the central government).

amount of the compensation	25% of the daily assessment base in the first 3 days 55% of the daily assessment base between 4 th and 10 th day
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Self-employed:

A self-employed person can receive the benefit only if has contributed to the social insurance system for at least 270 days within the last two years. The entitlement arises on the first day of temporary work incapacity and lasts until the end of self-employed person's temporary work incapacity, becoming disabled or at latest until the end of 52nd week – cannot receive the sickness cash benefit more than 1 year.

sickness benefit	25% of the daily assessment base in the first 3 days 55% of the daily assessment base since 4 th day
------------------	--

Voluntary payer:

Can receive the benefit only if has contributed to the system for at least 270 days within the last two years. Any person older than 16 years can join the insurance scheme voluntarily.

The entitlement for benefit arises on the first day of temporary work incapacity and lasts until the end of voluntary payer person's temporary work incapacity, becoming disabled or until the end of 52nd week at latest – cannot receive the sickness cash benefit more than 1 year.

sickness benefit	25% of the daily assessment base for the first 3 days 55% of the daily assessment base since 4 th day
------------------	---

The daily assessment base – is a sum of all of the assessment bases used in the previous year to calculate sickness insurance contributions, divided by the number of respective working days.

Benefit for nursing a sick relative

Designed to compensate for reduced income of a person taking care of a sick child, husband, wife, parent or a parent-in-law, if the doctor condemns that health conditions of this person require nursing by other person.

- if the insured person is nursing his/her sick husband/wife, parent, or wife's/husband's parent

- if the insured person is taking care of the child (own, commended) aged no more than 10 years
- entitlement arises on the first nursing day and expires on the last nursing day however by 10th day at the latest
- it is granted to only one person

benefit for nursing a sick relative

55% of the daily assessment base

The daily assessment base – is a sum of all of the assessment bases used in the previous year to calculate sickness insurance contributions, divided by the number of respective working days.

Insured person cannot receive the benefit for nursing a sick relative if:

- receives the compensation from his employer (during the first ten days of the temporary work incapacity)
- is entitled for the sickness cash benefit
- is entitled for the maternity benefit

Equalization allowance

Equalization allowance is designed to compensate for reduced income of a pregnant woman, who had to be moved to a different job position. The equalization allowance is 55% of the difference between the monthly assessment base before and after moving to another position.

Maternity benefit

This benefit is paid to a pregnant woman or to a person who takes care of a newborn child. The person is eligible for the benefit if she contributed to the insurance system for at least 270 days within the last 2 years prior to the delivery. The benefit can start being paid 6 weeks before the delivery for 28 weeks in total. However, the duration is extended to 37 weeks if the woman gives birth to two or more children, or if the woman is a single mother.

maternity benefit

55% of the daily assessment base, up to 260 SKK

The daily assessment base – is a sum of all of the assessment bases used in the previous year to calculate sickness insurance contributions, divided by the number of respective working days.

2.5.2 Unemployment insurance benefits

Insured person is eligible for the unemployment benefit if contributed to unemployment insurance system for at least three years within the last four years before the listing on the unemployment registry – i.e. becoming unemployed. If the insured person is withdrawn from the registry or the person reaches the pension age, eligibility for the unemployment benefit disappears. Duration of the payment is at most six months.

Accumulation with health or maternity benefits, the child-raising allowance, or a pension is not permitted.

If the unemployed person who draws the unemployment benefit becomes employed, the next eligibility for the unemployment benefit will arise after three years.

The entitlement for benefit disappears:

- after six months
- when the old-age pension entitlement arise – old-age pensioners cannot draw the unemployment benefit
- when becomes employed

unemployment insurance benefit

50% of the daily assessment base

The daily assessment base – is a sum of all of the bases (gross incomes subject to social insurance) used in the previous three years to calculate unemployment insurance contributions, divided by the number of respective working days.

The insured person must not draw the unemployment benefit even if entitled, if:

- draws sickness cash benefits
- draws benefit for nursing sick relative
- draws maternity benefit
- draws parental allowance

2.5.3 Old-age benefits

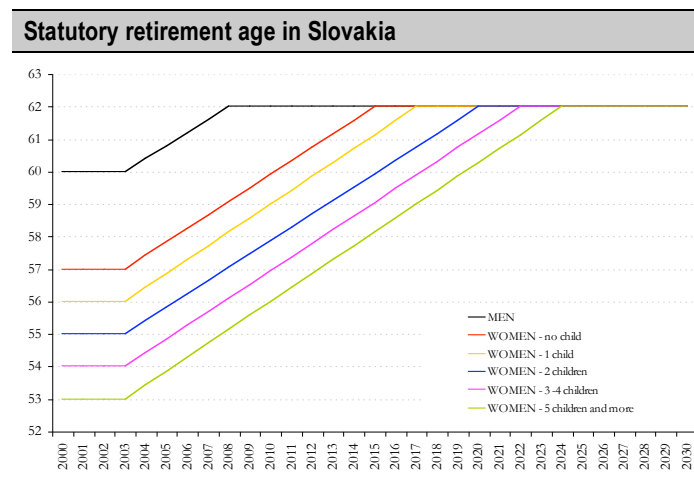
The current pension system applies from 2004. It consists of four different benefits: old-age pension, early old-age pension, widow's and widower's pension and orphan's pension.

Old-age pension

The entitlement for old-age pension arises to an insured person who:

- reaches the pension age
- has been old-age insured for at least 10 years

Until 2003 the retirement age was 60 years for men and 53-57 years for women (depending on the number of children). As of 2004 the retirement age is gradually converging to 62 for both men and women. The common retirement age of 62 years for all groups will be reached in 2025.



Since 2004, pension benefits in Slovakia are indexed by the Swiss formula – i.e. 50 percent of inflation growth and 50 percent of nominal wage growth.

Calculation of the old-age pension:

The old-age benefit from first pillar is based on a point system i.e. earnings related principle. Three variables determine the old age pension benefit – **length of career in years**, **average personal wage point** which is basically the individuals average lifetime position relatively to average wage in the

economy (according to law cannot exceed the value of 3¹) and **current point value**. Current point value was initially (at the time of PAYG reform in 2004) calculated as a residual so as a person with 40 years of service and average personal wage point equal to 1 (person earning average wage for the whole career) will receive pension with circa 50% replacement rate. In order to keep the replacement rate stable for all new pensioners, the current point value is annually indexed to average wage increase.

$$OP = APP \times T \times CPV$$

OP – old-age pension, APP – average personal wage point, T- number of years worked, CPV –current point value, PP –pension point

Average personal wage point (APP) is calculated from the personal wage points (PP) of the insured person. Pension points are calculated as the ratio of individual earnings to average earnings in the economy.

$$PP = \frac{\text{individual earnings}}{\text{average nat. earnings}} = \frac{(\text{annual assessment base that was used to calculate contributions})}{(12 \times \text{average monthly wage in the economy})}$$

The maximum value of the personal wage point that can be used for pension calculation is three.

Current point value (CPV) is a figure that represents a price of one pension point. The current point value is adjusted annually on 1 January according to average earning index.

If old-age entitled person works after reaching the pension age, the amount of the pension is calculated as follows:

$$OP_2 = (OP + OP_1) \times 1.005 \quad - \text{the amount of the pension (OP+OP}_1\text{) is increased by 0.5\% every 30 days after reaching the pension age}$$

$$OP_1 = \sum PP \times CPV$$

OP₂ – overall old –age pension, OP₁ – old-age pension calculated after reaching pension age, OP – old-age pension calculated before reaching the pension age

The amount of pension calculated from those years where pensioner participated in the fully funded pillar is halved – because only half of his old-age insurance contributions were paid into the pay-as-you-go system.

Early old-age pension

The entitlement for early old-age pension arises to an insured person who:

- has been old-age insured for at least 10 years
- becomes eligible for early old-age pension that is higher than 1.2 x minimum level of subsistence for one adult

The entitlement for early old-age pension arises to a pension saver (participant in the fully funded pillar) who:

- has been old-age insured for at least 10 years
- becomes eligible for early old-age pension that is higher than 0.6 x minimum level of subsistence for one adult

¹ This originally reflected that the assessment base ceiling was 3 times the average wage. Increase in the ceiling to 4 times the average wage in 2008 has not led to change in the limit on average personal wage point.

The amount of pension calculated from those years where pensioner participated in the fully funded pillar (pension saver) is halved – because only half of his old-age insurance contributions were paid into the pay-as-you-go system.

The early old-age pension recipient is not eligible for the old-age pension.

$EOP = (APP \times T \times CPV) \times 0.995$ - the amount of the early-age pension is lowered by 0,5% for every 30 days that are remaining to reach the regular pension age. (e.g. for 37 days is it $2 \times 0.5\%$)

EOB – early old-age pension, APP – average personal wage point, T- number of years worked, CPV –current point value, PP –personal wage point

Changes in 2007 – 2009

In year 2008, restriction on age was introduced so that early retirement can not be given more than 2 year before reaching the regular retirement age.

2.5.4 Disability benefits

Consists of three different benefits: disability pension, widow's and widower's pension, orphan's pension

Disability pension

The current system defines disable person as a person with long-term unfavorable health conditions and more than 40 % work capability decrease. The disability pension cannot be paid during the period of temporary work incapacity.

Calculation of the disability pension for a person with 41%-70% decline of work capability:

$$DP = (APP \times (T + T_1) \times CPV) \times M$$

Average personal wage point is calculated from the pension points of the insured person. Pension points are calculated as the ratio of individual earnings to average earnings in the economy.

$$PP = \frac{\text{individual earnings}}{\text{average earnings}} = \frac{(\text{sum of annual assessment bases that was used to calculate contributions})}{(12 \times \text{average monthly wage in the economy})}$$

Current pension value is a figure that represents a price of one pension point. The current pension value is adjusted annually on 1 January according to average earning index.

DB – disability pension, APP – average personal wage point, T- number of years insured until becoming disable, T₁ - number of years between becoming disabled and reaching pension age, CPV –current point value, PP –personal wage point, M – work capability decline percentage rate

Calculation of the disability pension for a person with more than 70% decline of work capability:

$$DP = APP \times (T + T_1) \times CPV$$

2.5.5 Other pensions

Widow's and widower's pension

The entitlement arises to widow/ widower if his/hers deceased spouse:

- was old-age, early old-age or disability pension recipient

- was entitled for old-age, early old-age or disability pension
- died of an occupational disease or accident

The pension can be received only within one year after decease.

The entitlement for the widow's/ widower's pension does not expire after one year if:

- takes care of a dependent child (that receives the orphan's pension)
- is disabled – with more than 70 % work capability decline
- reaches the pension age

The entitlement expires if widow/ widower becomes married

The amount of widow's/ widower's pension:

- 60 % of the old-age pension, early old-age pension or disability pension of the deceased

Orphan's pension

The entitlement arises to a dependent child whose parent (or person having custody of him) have died. The entitlement arises only if the parent was an old-age pension, early old-age pension or disability pension recipient (or entitled person).

Dependent child in a foster care cannot receive the pension

The amount of orphan's pension:

- 30 % of old-age pension, early old-age pension or disability pension of the deceased parent

2.6 Social assistance – poverty related benefits

2.6.1 *Material need benefits (Dávka v hmotnej núdzi a príspevky k dávke)*

Means-tested benefits provided to people in material need, i.e. those, who have not income or their income is below the minimum subsistence, in order to ensure them basic living standard.

Definition 2 - Minimum subsistence level (MSL)

The minimum subsistence level is socially recognized minimum income of individual and common assessed persons below which they are in material need.

The minimum subsistence level (valid 30.6.2006):

- **4,980 SKK/month** – for one adult
- **3,480 SKK/month** – for additional common assessed living in common household
- **2,270 SKK/month** – for dependent child or independent child with age below 18 years

Actual amounts of the minimum subsistence level (valid since 1.7.2009):

- **5,579.03 SKK/month** (€ 185.19)– for one adult
- **3,891.68 SKK/month** (€ 129.18)– for additional common assessed living in common household
- **2,546.25 SKK/month** (€ 84.52)– for dependent child or independent child with age below 18 years

e.g. for a family with parents and one dependent child, the minimum subsistence level would be:
SKK 4,980 + SKK 3,480 + SKK 2,270 = SKK 10,730 per month.

MSL is on 1 July automatically indexed either to cost-of living index for low-income families (i.e. low-income household inflation) or to net income growth calculated for low-income families.

The amount of material need benefits depends on the structure and incomes of the family or household. The entitlement arises in a situation when **incomes of an individual and other common assessed persons living in common household are below the minimum subsistence level** and cannot be increased by themselves.

The common assessed persons are:

- Spouses
- Parents and dependent children living in common household
- Parents and children aged up to 25 years without income or with income below the minimum wage (except children entitled for unemployment benefit or disability benefit)

The benefit amount is calculated as a difference between the eligible maximum material need benefits (social benefit, activation allowance, health care allowance, housing allowance, protection allowance) and the income of assessed individuals.

For the need of material need benefit calculation, household incomes are defined:

Incomes included:

- incomes that are subject to personal income tax less social security contributions and tax liability (i.e. net incomes from dependent work or self-employment)
- tax-free incomes :
 - Social security benefits (old-age pension, disability benefit, maternity benefit, widow and widower pension, orphan pension), pension benefits from 2nd pillar (from year 2020)
 - Material need benefits (repeated) : social benefit, health care allowance, activation allowance- back-to-work allowance, housing allowance, protection allowance,

- Parental allowance

Deductions from incomes:

- 25% of the income from dependent work
- 25 % of the old-age pension for a pensioner with working career up to 25 years. For each additional year above 25 the parameter is increased by 1%.
- 25% of the disability benefit
- 25% of the maternity benefit
- 25% of the widow and widower pension
- 25% of the orphan pension

Changes in 2007 – 2009

- income from work performance agreement (dohoda o vykonaní práce) up to amount twelve times the MSL earned in the last 12 months (1.1.2008)
- additional child benefit (príplatok k prídavku na dieťa) 1.1.2008
- employee tax credit (1.1.2009)

Incomes excluded:

- social assistance benefits for severely disabled people
- one-off state social support payments :
 - childbirth grant,
 - multiple birth benefit,
 - foster care allowances – only one-off allowances,
 - parental allowance,
 - one-off allowances for child in foster care,
 - funeral benefit
- scholarships
- one-off material need benefits
- tax credit on dependent child
- contribution for graduate practice
- university scholarship
- contribution for commuting expenses related to job interview
- income from occasional activities, random or one-off incomes up to amount two times the MSL
- child benefit

Material need benefits amounts are changed annually by government regulation on 1 September. There is no automatic indexation rule in legislation.

Material need benefits, year 2006 : sum of 2.6.1.1 - 2.6.1.6	SKK	EUR
Expenditure (million.)	7,732	208
Expenditure (% of GDP)	0.5%	
Recipients	181,200	
Recipients together with assessed persons	407,092	

2.6.1.1 Social benefit (Dávka v hmotnej núdzi)

Social benefit amount (monthly)	SKK	EUR
Adult, no children	1,560	41.9
Adult, 1- 4 children	2,500	67.1
Adult, > 4 children	3,710	99.6
Adult couple, no children	2,710	72.8
Adult couple, 1-4 children	3,700	99.4
Adult couple, >4 children	4,950	132.9
Pregnant woman from 4 th month of pregnancy until the birth*	+350	+9.4

Parent of a child up to 1 year, who is considered to be in material need, can be granted an additional benefit in amount of **350SKK monthly**. The entitlement for the benefit arises if the parent has a paediatric confirmation of regular medical check-up of the child.

2.6.1.2 Health care allowance (Príspevok na zdravotnú starostlivosť)

For covering the health care services expenditures of an individual and each common assessed person who are together considered to be in material need. The health care allowance is granted to each person in material need, even if receives health care services free of charge.

Health care allowance amount (monthly)	SKK	EUR
per person	50	1.3

Changes in 2007 – 2009

In years 2007, 2008, 2009 no legislative change of health care allowance has been adopted.

2.6.1.3 Activation allowance (Aktivačný príspevok)

Aims at obtaining, retaining or increasing the level of qualification, work skills or work habits in order to encourage individuals or households to retain or to look for a job during the material need period. Granted to an individual and each common assessed person who are together considered to be in material need. Activation allowance can not be received simultaneously with protection allowance.

Activation allowance amount (monthly)	SKK	EUR
per person	1,700	45.7

Preconditions for **employed** and **unemployed** to get eligible for the allowance are as follows:

- part-time attendance in an educational institution
- participation in training programs organized by the National Labour Office
- participation in work programs organized by the municipality and the Labour Office

If employed person in material need does not participate in programs mentioned above or unemployed person has been excluded from the unemployment registry, the entitlement for activation allowance does not arise.

Long term unemployed person which was entitled for material need benefits can receive activation allowance for 6 month (maximally) if got employed (for at least minimum wage at most 3 x MW)

Long term unemployed person which was entitled for material need benefits can receive activation allowance for 6 month (maximally) if got self-employed.

Changes in 2007 – 2009

In years 2007, 2008, 2009 no legislative change of activation allowance has been adopted.

Cannot be granted simultaneously with contribution for graduate practice.

2.6.1.4 Housing allowance (*Príspevok na bývanie*)

Is given to an individual and each common assessed person who are together considered to be in material need. It aims at covering housing related costs. The individual or at least one of the common assessed persons must be owner or tenant of the flat or family house (and must prove he pays housing cost). Old age pensioner does not need to meet the condition in previous sentence.

Housing allowance amount (monthly)	SKK	EUR
per household : individual in material need	1,360	36,5
per household : individual and common assessed person in material need	2,150	57,7

Only one individual from the household is entitled to receive the allowance.

Changes in 2007 – 2009

In years 2007, 2008, 2009 no legislative change of housing allowance has been adopted.

2.6.1.5 Protection allowance (*Ochranný príspevok*)

Received by an individual and each common assessed person who are together considered to be in material need and who are not able to secure the essential living standards. Primarily granted to elderly and disabled persons. The household is not entitled for the protection allowance if receives the activation allowance.

Protection allowance amount (monthly)	SKK	EUR
per person	1,700	45,7

Entitled persons:

- Person who reached pension age
- Severely disabled person (>70%)
- Lone parent which takes care of a child aged less than 31 weeks
- Person which takes care of a child with severely bad health condition
- Person which takes care of a disabled person
- Person with unfavorable health condition (including more than 30 days of sickness)

Changes in 2007 – 2009

In years 2007, 2008, 2009 no legislative change of protection allowance has been adopted.

2.6.1.6 Lump-sum benefit for material distress

One-off payment to an individual and each common assessed person who are together considered to be in material need. Aims on covering exceptional expenditures on essential clothing, basic household appliances, school materials for dependent child and treatment costs.

Lump-sum benefit for material distress (one off)

the maximum benefit amount is equal to costs but maximally **3x MSL**

Changes in 2007 – 2009

In years 2007, 2008, 2009 no legislative change of lump-sum benefit for material distress has been adopted.

The lump-sum benefit for material distress can be received simultaneously with other material need benefits.

2.7 State social support - family related benefits

The system of state social support includes family related benefits financed out from the state budget. Thus, state is directly involved in solving specific living situations like child birth, care for a child, death of family relative etc. Eligibility for family related benefits is **neither conditional on paying contributions nor means-tested**.

2.7.1 Child birth grant (*Príspevok pri narodení dieťa*)

One-off payment to parents to cover the essential needs of the newborn.

Child birth grant, year 2006	SKK	EUR
Amount for one child - each child	4,460	120
Amount if two or more children were born - each child	6,690	180
Expenditure (million.)	229	6
Expenditure (% of GDP)	0.0%	
Recipients	4,218	

There is no conditionality to this grant other than permanent residency in SR. Only one parent (usually mother) can receive the grant. The grant is paid out next month after the child's birth (the child must be older than 28 days).

The benefit is changed by the Government regulation annually on 1 September. There is no automatic indexation rule legislated.

Changes in 2007 - 2009

2007

On 1 January 2007 new “**additional birth grant (*Priplatok k príspevku pri narodení dieťa*)**” was introduced to support young families. Each child born in the first childbearing was granted a one off benefit of SKK 11,000. There is no automatic indexation rule legislated, the benefit is changed by the Government regulation annually on 1 September. The grant is paid out next month after the birth (the child must be older than 28 days).

2008

On 1 February 2008 the additional birth grant was increased significantly to SKK 20,440.

2009

On January 1, 2009, the additional birth grant extended to the birth of the second and third child, thus ensuring equal support to families in the amount of EUR 830 per child.

2.7.2 Multiple birth benefit (*Príspevok rodičom, ktorým sa súčasne narodili tri deti alebo viac detí alebo ktorým sa v priebehu dvoch rokov opakovane narodili dvojčatá*)

An annual allowance paid to parents (also foster parents) with at least three children younger than 15 years, depending on their age if three or more children were born at the same time or twins within 2 years were repeatedly born then:

Multiple birth benefit, year 2006	SKK	EUR
Amount for a child up to 6 years per year	2,420	65.0
Amount for a child between 6 and 15 years per year	2,980	80.0
Amount for a child aged 15 years per year	3,170	85.1
Expenditure (million.)	3	0
Expenditure (% of GDP)	0.0%	
Recipients	51	

The benefit can be changed by the Government regulation annually on 1 September. There is no automatic indexation rule legislated.

Changes in 2007 – 2009

In years 2007, 2008, 2009 no legislative change of the multiple birth benefit has been adopted.

2.7.3 Child benefit (*Prídavok na dieťa*)

A **monthly** social benefit aimed to support the nutrition and care of each **dependent child** (definition in box no.1). Only one parent or eligible person can be entitled to receive the child benefit. There is no conditionality to this grant other than permanent residency both of the entitled parent and the dependent child in SR. If the child is placed in a social services establishment, the benefit is not granted.

Child benefit, year 2006	SKK	EUR
Amount - child/month	540	14.5

Expenditure (million.)	8,462	227
Expenditure (% of GDP)	0.5%	
Recipients	743,461	

The benefit can be changed by the government regulation annually on 1 September. There is no automatic indexation rule legislated. The benefit can be granted only if the child is dependent.

Changes in 2007 - 2009

2008

On 1.1.2008, additional child benefit was introduced. Entitlement arises if person entitled for child benefit:

- is recipient of old age pension, early old age pension, disability benefit (>70 %)
- person does not work
- person is not entitled for tax credit for dependent child

The amount of additional child benefit is SKK 300 per month. The benefit can be changed by the government regulation annually on 1 September. There is no automatic indexation rule legislated.

2009

Child benefit increased as of 1 January 2009 to SKK 640 and new indexation mechanism was introduced for the following years (linked to MSL). As of 2009 the child benefit is indexed on 1 January (not 1 September).

2.7.4 Parental allowance (*Rodičovský príspevok*)

A **monthly** social benefit, designed to contribute to parents taking care of at least one child (both own child and child in foster care) aged up to 3 years (or 6 years in the case of a long-term severely disabled child). Only one parent or eligible person can be entitled to receive the parental allowance one time in a month. The entitled parent is allowed to work if the child is at grandparents or in kindergarten.

Parental allowance, year 2006	SKK	EUR
Amount - per month	4,230	113.6
Expenditure (million.)	7,059	190
Expenditure (% of GDP)	0.4%	
Recipients	134,786	

The parental allowance amount is indexed annually on 1 September by the minimum subsistence level growth. There is no automatic indexation rule legislated.

- if one of the parents is entitled to sickness cash benefit, the parental allowance is not granted at all.
- if one of the parents is entitled to maternity benefit, the parental allowance is calculated as the difference between the parental allowance and the maternity benefit. i.e.
 - if the parental allowance < the maternity benefit then = 0
 - if the parental allowance > the maternity benefit then = the difference between maternity benefit and parental allowance

2.7.5 Funeral benefit (*Príspevok na pohreb*)

Funeral benefit is a **one-off** benefit that covers expenses on a burial of a family member. There is no conditionality to this grant other than permanent residency in SR.

Funeral benefit, year 2006	SKK	EUR
Amount - child/month	2,300	61.8
Expenditure (million.)	119	3
Expenditure (% of GDP)	0.0%	
Recipients	4,304	

The benefit can be changed annually by government regulation on 1 September. There is no automatic indexation rule legislated.

Changes in 2007 – 2009

In years 2007, 2008, 2009 no legislative change of funeral benefit has been adopted.

2.7.6 School subsidies

2.7.6.1 Subsidy for catering and subsidy for school needs

A subsidy for catering and subsidy for school needs are paid to municipalities as a benefit for those in material need.

	SKK	EUR
subsidy for catering per day	26	0.7
subsidy for school needs per academic year	1,000	26.9

The subsidy is granted to those schools where more than 70% of the children are from households in material need. In those schools, all children receive subsidies.

2.7.6.2 Scholarships for pupils

Scholarships for pupils from low-income families are paid monthly in three amounts: SKK 500, SKK 300 and SKK 200 according to pupils' grades in the previous semester. The entitlement arises to children attending elementary school (approximately 7 – 15 years old).

If the child's family under the minimum level of subsistence or if more than 70% of all pupils in a school are from poor families, and their average grade is better than 2.5, or on average they improve their grades by 0.5, all are eligible for the scholarship. The payments are not included in income for the calculation of social benefits.

Scholarships for pupils (monthly)	SKK	EUR
if child's grade average = <1; 1.5>	500	13.4
if child's grade average = (1.6; 2.5>	300	8.1
child's average grade improvement by 0.5	200	5.4

2.7.6.3 Scholarships for students of secondary schools

Three amounts are paid monthly to students from poor families in the amount of SKK 1,200, SKK 800 and SKK 600 according to an average grade received.

Scholarships for students of secondary schools (monthly)	SKK	EUR
if child's grade average = <1; 2>	1,200	32.2
if child's grade average = (2; 3>	8,00	21.5
if child's grade average = (3; 5)	6,00	16.1

Entitlement arises to those students, who are from households receiving material need benefits.

2.7.6.4 Social scholarships for university students

Scholarships for university students from low-income households. It is granted annually for no longer than 11 months within a year, starting on the first day of the academic year.

The social scholarship amount depends on the income of the household:

Social scholarships for university students (monthly)	SKK	EUR
if income per 1 household member SKK < 2,700	2,000	53.7
if income per 1 household member SKK > 2,700 and < 3,200	1,500	40.3
if income per 1 household member SKK > 3,200 and < 3,700	1,000	26.9

Eligible students, who study in the same city as is their permanent residence, will receive SKK 200 per month less. Handicapped students are eligible to receive extra SKK 500 per month.

3 Input database: EU-SILC

Slovakia prefers to be in the group of „year 2” countries for which EUROMOD should be constructed during year 2010. For this group, EU-SILC 2007 (income year 2006) will be used as a microdatabase.

The Slovak EU-SILC 2007 is in our opinion suitable database for microsimulations and it would be feasible to build the EUROMOD on it. The 2007 wave was already the third EU-SILC done in Slovakia (2005 was the first). Thus, generally it could be concluded that the quality improved within this three year period.

The survey has been done in year 2007 in 308 Slovak municipalities in 5 840 selected households. Into database 4 941 household, 12 573 persons aged 16 and more have been included. The overall response rate was 85 %.

For Euromod purposes, UDB SILC version must be used due to access restrictions to the national SILC version. However, after consultations with Statistical office of the Slovak republic, Ministry of Finance was allowed to have the national version of the EU-SILC 2007 a and use it for computation of potential assumptions etc.

Feasibility of modeling particular taxes or benefits in EUROMOD	Can be simulated (yes, partly, no)
Personal income tax	Yes. Both basic tax allowance and spouse tax allowance can be fully simulated. The third type of tax allowances can be taken from the SILC database (PY035G)
Social and health insurance contributions	Yes
Value added tax	No, restrictions due to both model and database
Excise tax	No, restrictions due to both model and database
Real estate tax	No, but can be directly taken from EU-SILC
Vehicle tax	No
Social insurance benefits	No. Unemployment benefit, Old-age benefits, Disability benefits, Sickness benefits can be taken from the SILC database (PY090G-PY130G)
Material need benefits	Yes (although the formula described in the feasibility study might seem complicated, these benefits can be simulated)
Child birth grant	Yes
Multiple birth benefit	Yes
Child benefit	Yes
Parental allowance	Yes
Funeral benefit	No
School subsidies	Partly (assumptions on child's grades has to be made)

Brief description of information included in the EU-SILC UDB version and preliminary list of variables that can be used for tax-benefit simulations:

HOUSEHOLD REGISTER (D-FILE) - aggregated information about each household in the survey

- Households' ID and weights in the survey
- Area (Bratislava, West, Middle, East) and region (8 regions – VUCs)

PERSONAL REGISTER (R-FILE) – contains basic information on each household member

PERSONAL REGISTER (R-FILE) – list of variables that can be used for simulation	
RB030	PERSONAL ID
RB041	PERSONAL ID
RB070	MONTH OF BIRTH
RB080	YEAR OF BIRTH
RB090	SEX
RB220	FATHER ID
RB230	MOTHER ID
RB240	SPOUSE/PARTNER ID
RL010	EDUCATION AT PRE-SCHOOL
RL020	EDUCATION AT COMPULSORY SCHOOL
RL030	CHILD CARE AT CENTRE-BASED SERVICES
RL040	CHILD CARE AT DAY-CARE CENTRE
RL050	CHILD CARE BY A PROFESSIONAL CHILD-MINDER AT CHILD'S HOME OR AT CHILDMINDER'S HOME
RL060	CHILD CARE BY GRAND-PARENTS, OTHERS HOUSEHOLD MEMBERS (OUTSIDE PARENTS), OTHER RELATIVES, FRIENDS OR NEIGHBOURS

HOUSEHOLD DATA (H-FILE)

HOUSEHOLD DATA (H-FILE) – list of variables that can be used for simulation	
HB030	HOUSEHOLD ID
HH020	TENURE STATUS
HS110	DO YOU HAVE A CAR?
HY010	TOTAL HOUSEHOLD GROSS INCOME
HY020	TOTAL DISPOSABLE HOUSEHOLD INCOME
HY023	TOTAL DISPOSABLE HOUSEHOLD INCOME BEFORE SOCIAL TRANSFERS INCLUDING OLDAGE AND SURVIVOR'S BENEFITS
HY040G	INCOME FROM RENTAL OF A PROPERTY OR LAND
HY090G	INTEREST, DIVIDENDS, PROFIT FROM CAPITAL INVESTMENTS IN UNINCORPORATED BUSINESS
HY050G	FAMILY/CHILDREN RELATED ALLOWANCES
HY070G	HOUSING ALLOWANCES
HY110G	INCOME RECEIVED BY PEOPLE AGED UNDER 16
HY120G	REGULAR TAXES ON WEALTH
HY140G	TAX ON INCOME AND SOCIAL CONTRIBUTIONS

PERSONAL DATA (P-FILE) - contains detailed information on each household member

PERSONAL DATA (P-FILE) – list of variables that can be used for simulation	
PB030	PERSONAL ID
PB130	MONTH OF BIRTH
PB140	YEAR OF BIRTH
PB150	SEX
PB160	FATHER ID
PB170	MOTHER ID
PB180	SPOUSE/PARTNER ID
PB190	MARITAL STATUS
PB200	CONSENSUAL UNION
PE010	CURRENT EDUCATION ACTIVITY

PE020	ISCED LEVEL CURRENTLY ATTENDED
PH010	GENERAL HEALTH
PL015	PERSON HAS EVER WORKED
PL030	SELF-DEFINED CURRENT ECONOMIC STATUS
PL040	STATUS IN EMPLOYMENT
PL070	NUMBER OF MONTHS SPENT AT FULL-TIME WORK
PL072	NUMBER OF MONTHS SPENT AT PART-TIME WORK
PL080	NUMBER OF MONTHS SPENT IN UNEMPLOYMENT
PL085	NUMBER OF MONTHS SPENT IN RETIREMENT
PL087	NUMBER OF MONTHS SPENT STUDYING
PL090	NUMBER OF MONTHS SPENT IN INACTIVITY
PL160	CHANGE OF JOB SINCE LAST YEAR
PL170	REASON FOR CHANGE
PL180	MOST RECENT CHANGE IN THE INDIVIDUAL'S ACTIVITY STATUS
PL190	WHEN BEGAN FIRST REGULAR JOB
PL200	NUMBER OF YEARS SPENT IN PAID WORK
PL210A	MAIN ACTIVITY ON JANUARY
PL210B	MAIN ACTIVITY ON FEBRUARY
PL210C	MAIN ACTIVITY ON MARCH
PL210D	MAIN ACTIVITY ON APRIL
PL210E	MAIN ACTIVITY ON MAY
PL210F	MAIN ACTIVITY ON JUNE
PL210G	MAIN ACTIVITY ON JULY
PL210H	MAIN ACTIVITY ON AUGUST
PL210I	MAIN ACTIVITY ON SEPTEMBER
PL210J	MAIN ACTIVITY ON OCTOBER
PL210K	MAIN ACTIVITY ON NOVEMBER
PL210L	MAIN ACTIVITY ON DECEMBER
PY010G	EMPLOYEE CASH OR NEAR CASH INCOME
PY020G	NON-CASH EMPLOYEE INCOME
PY021G	COMPANY CAR
PY030G	EMPLOYER'S SOCIAL INSURANCE CONTRIBUTION
PY035G	CONTRIBUTIONS TO INDIVIDUAL PRIVATE PENSION PLANS
PY050G	CASH BENEFITS OR LOSSES FROM SELF-EMPLOYMENT
PY080G	PENSION FROM INDIVIDUAL PRIVATE PLANS
PY090G	UNEMPLOYMENT BENEFITS
PY100G	OLD-AGE BENEFITS
PY110G	SURVIVOR' BENEFITS
PY120G	SICKNESS BENEFITS
PY130G	DISABILITY BENEFITS
PY140G	EDUCATION-RELATED ALLOWANCES

4 Appendix

4.1 Main indicators for tax-benefit purposes

Selected indicators (SKK)	2006		2007		2008	
CPI index	104.5		102.8		104.6	
Average monthly wage at current prices (AW)	18,761		20,146		21 782	
Minimum subsistence income level (monthly) (MSL)	1.1. - 30.6.	1.7. - 31.12.	1.1. - 30.6.	1.7. - 31.12.	1.1. - 30.6.	1.7. - 31.12.
for one major individual	4,730	4,980	4,980	5,130	5,130	5,390
for additional common assessed person	3,300	3,480	3,480	3,580	3,580	3,760
for dependent child or under aged independent child (below 18 years)	2,150	2,270	2,270	2,340	2,340	2,460

Minimum monthly wage (SKK)	2006		2007		2008
	until 1.10.	from 1.10.	until 1.10.	from 1.10.	from 1.1.*
Minimum wage (monthly) (MW)	6,900	7,600	7,600	8,100	8,100

Average annual exchange rate (SKK/EUR)	2006	2007	2008	2009*
SKK/EUR	37.234	33.775	31.262	30.126

* conversion exchange rate

Source : Eurostat

4.2 Acronyms

EU	-	European union
NMS	-	new member states
SKK	-	Slovak crown
PIT	-	Personal income tax
VAT	-	Value added tax
SSC	-	Social contributions
BTA	-	Basic tax allowance
MSL	-	Minimum subsistence level
STA	-	Spouse tax allowance
AW	-	Average monthly wage in economy
MW	-	Minimum wage
SIAB	-	Social insurance assessment base
HIAB	-	Health insurance assessment base