

Newsflash

Changes to health and social insurance legislation as of 1 January 2011



In late December 2010, the Slovak Parliament approved an amendment to the health insurance and social insurance laws in Slovakia. The aim of these amendments was to align the assessment bases for insurance contributions with an individual's tax base. Under the amendment, all individuals whose employment income is subject to income tax under income tax law, will be liable to health and social contributions.

Changes in health insurance

For health insurance purposes, the above changes have been implemented not only in relation to employment income, but also in relation to business, capital, rental, other incomes (including sales of shares), and even non-taxable dividend income that the individuals receive. If taxpayers are considered Slovak tax residents and - based on EU legislation or the Totalisation agreement - are subject to the Slovak social security system, all their worldwide income will be subject to Slovak health insurance contributions, including rental, capital and dividend income from abroad. However, income which is subject to Slovak withholding tax and income from contracts on work outside an employment arrangement, are not liable to health insurance levies.

Health insurance contributions applicable to dividends, capital, other income and rental income

Dividends:

- Contributions for an individual who receives a dividend are 10% of assessment base;
- The assessment base is calculated as the difference between the amount of dividend received, and the minimum annual assessment base (it is EUR 3,948.72 for calendar year 2011);
- No advances need to be paid during the year;
- The obligation to pay contributions will apply to dividends paid from profits generated in 2011 and in the following periods. This means an individual will declare the dividends for the first time in his annual health insurance reconciliation for 2012, i.e. by March 2013.

Capital income and other income (e.g. sale of shares):

- Contributions for an individual who receives capital or other income are 14% of assessment base;
- The assessment base is the tax base for a particular calendar year;
- No advances need to be paid during the year;
- For the sale of shares (classified as other income), the tax base is income from the sale less actual acquisition costs and expenses connected with the sales of shares;
- Contributions will be settled based on an annual health insurance reconciliation.

Rental income:

- Contributions for an individual who receives rental income are 14% of assessment base;
- The assessment base is the tax base for a particular year;
- The monthly contributions may be set to zero for 2011, but the annual contribution will be settled by filing an annual health insurance reconciliation;
- The registration obligation is before 31 January 2011 for existing income, or when such income arises (for new rental income).



Capping:

All partial assessment bases from dividend income, capital income or other income are subject to limitation of cumulative assessment base, which is capped for the respective year at 36 multiple of average salary for the calendar year two years previously (i.e. in 2011, the average salary of 2009 is taken into account). In 2011 the total annual cap is EUR 26,802.

Changes in social insurance

For social insurance purposes, only employment income (excluding income from contracts on work performed outside an employment arrangement) and business income (excluding rental income, capital gains and income which is subject to withholding tax), will be subject to social insurance contributions.

In the case of employment income, there are changes in relation to the social insurance contributions' burden for non-periodic employment income. Non-periodic employment income (which currently is mainly received by executives and members of statutory company bodies) is considered income paid other than on a monthly basis. For the purpose of social insurance contributions, this income will be divided for each previous month of the calendar year for which an individual did not receive regular employment income.

Such non-periodic employment income will be subject to compulsory pension insurance (retirement insurance, invalidity insurance and solidarity reserve fund) for each month of the previous period, up to the maximum monthly assessment base. This means that the one-off remuneration paid, for example in November in the amount of EUR 8,000, will be subject to contributions of compulsory pension insurance for the months from January to October on the monthly assessment base, in the amount of 800 EUR (8,000 EUR / 10 months).



3rd country nationals taxable in Slovakia

The above changes mean that 3rd country nationals coming from non-EU countries (except for Switzerland) with employment income taxable in Slovakia, should become subject to Slovak social and health insurance from 1 January 2011, even if they did not fall under Slovak coverage in previous periods. EU regulations 883/2004 or the previously applicable 1408/71 („EU regulation“) still apply to EU nationals and 3rd country nationals coming from an EU country or Switzerland where they were covered by a social security system. Therefore, they may be still exempt from Slovak insurance obligations under standard EU rules.

The Slovak company which is considered the economic employer of the assigned individuals is required to pay health and social insurance contributions (employee's and employer's) for them.

If such foreign individuals are not economic employees, the foreign employer is the payer of the contributions either through its permanent establishment, or in the same regime which is applicable for foreign tax payers (shadow payroll).

Individuals and their economic employers need to register with the relevant Slovak health insurance company and the Social Insurance Company by 31 January 2011, and monthly contributions should start to be paid.

As a consequence, because Slovakia and some countries do not have any bilateral social security agreements, the additional (extra) cost for Slovak health insurance and social insurance contributions would arise for individuals and their employers. The Slovak health insurance and social security contributions are capped on a monthly basis, although for health insurance contributions the annual reconciliation is to be done.

Actions needed for 3rd countries nationals

Health insurance contributions:

- Review position of each individual, e.g. if having two or more employments either in Slovakia or abroad,
- Registration of an individual with a chosen health insurance company for employment purposes and rental purposes (by 31 January 2011),
- Registration of an individual by his Slovak economic employer or foreign employer of permanent establishment with a health insurance company chosen by the individual (by 31 January 2011),
- Start paying health insurance contributions based on employment income, on a monthly basis (not required to pay monthly contributions based on rental income for now),
- Prepare and file an annual health insurance reconciliation (by 31 March 2012).

Social insurance contributions:

- Registration of an individual by his Slovak economic employer with the Slovak Social Insurance Company (by 31 January 2011),
- Start paying social security contributions based on employment income, on a monthly basis.

Please note however, that health and social insurance laws are not very clear with respect to 3rd country nationals, so we recommend checking with us for any subsequent interpretations.



Current Totalisation agreements

Currently, applicable Totalisation agreements regarding social security with 3rd countries are with the following countries:

Ukraine, South Korea, Slovenia, Croatia, Macedonia, Bosnia & Herzegovina, Serbia & Montenegro, Canada, Quebec, Russian Federation, Belarus, Moldova, Georgia, Armenia, Azerbaijan, Turkmenistan, Tajikistan, Kyrgyzstan, Kazakhstan, Uzbekistan.

This information could serve for obtaining the Confirmation of Coverage in these countries, in order to avoid paying health and social insurance contributions in Slovakia in addition to health and social security contributions in the home country. However, there may be difficulties in practical application of some Totalisation agreements and in obtaining the Certificate of Coverage so special consideration is recommended.

The minimum and maximum monthly assessment bases

The minimum assessment base for health and social insurance purposes for employees and employers is EUR 317 per month. The maximum monthly assessment bases for employees and employers are currently capped as follows:

In EUR	Employee contributions			Employer contributions		
	Rates	Maximum base	Maximum monthly contribution	Rates	Maximum base	Maximum monthly contribution
Sickness	1.4%	1,116.75	15.63	1.4%	1,116.75	15.63
Retirement	4%	2,978.00	119.12	14%	2,978.00	416.92
Permanent disability	3%	2,978.00	89.34	3%	2,978.00	89.34
Unemployment	1%	2,978.00	29.78	1%	2,978.00	29.78
Health	4%	2,233.50	89.34	10%	2,233.50	223.35
Guarantee insurance*	-	-	-	0.25%	1,116.75	2.79
Reserve fund**	-	-	-	4.75%	2,978.00	141.45
Total	13.4%	-	343.21	34.4%	-	919.26

* Guarantee insurance represents the employer's contribution to the employers' fund from which remuneration related claims of employees whose employer became insolvent, are settled.

** Reserve fund represents a Social Insurance Company's fund that may be used by the Social Insurance Company to cover the insolvency of other insurance titles (e.g. retirement fund).

In addition to the contributions outlined above, the employer must also make injury insurance contributions based on its safety classification determined by law (in 2011 for all employers the rate is 0.8% of their employees' total salary costs per month, rounded down to two eurocents).

The minimum and maximum assessment bases for both health and social insurance contributions are valid for the entire calendar year 2011.