The Flat Tax Spreads to Slovakia

By Alvin Rabushka

On October 28, 2003, Slovakia's parliament enacted a 19% flat tax on both individual and corporate income to take effect on January 1, 2004. The measure passed by a vote of 85 to 48, with five abstentions, and garnered the support of some opposition deputies. The 19% flat tax on individual income replaces five brackets of 10, 20, 25, 35, and 38%. The flat tax greatly simplifies the current individual income tax which includes 90 exceptions, 19 sources of income that are not taxed, 66 items that are tax exempt, and 27 items with their own specific tax rates (e.g, bank interest, honoraria, etc.). The 19% tax rate on corporate income replaces the current rate of 25%. Once the corporate tax is paid, there will no tax on dividends received by individuals.

The 19% flat tax on individuals includes a personal exemption of Slovak Crowns or Koruna (SKK) 80,832, about $2,300, which is equivalent to six times average month salary. This is a rise from the current level of SKK 38,760, about $1,100 or 2.9 times average monthly salary. Under current law, gross income up to SKK 90,000 is taxed at a rate of 10%. The 20% tax bracket takes effect on income between SKK 90,000 and 180,000. Raising the exemption to SKK 80,832 virtually eliminates the increase in income tax due to the elimination of the 10% tax bracket. Each year, the exemption will be increased to equal 19.2 times the minimum monthly living standard, amounting to SKK 4,210 ($120) in 2004.

Along with the flat-rate income tax, a 19% VAT will take effective on January 1, 2004.

Slovakia adds one more country to a growing list that has adopted a flat tax. The chronology is Estonia (implemented in 1994), Latvia (1995), Russia (2001), Ukraine (2004), and now Slovakia (2004).