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NEW REGULATIONS AND THEIR IMPACT ON SMALL AND MEDIUM ENTERPRISES IN SLOVAK REPUBLIC

The subject of this article is ascertaining the legal forms of companies in Slovakia and their position based on the analysis of the state of SMEs and new regulations' impact on SMEs in Slovak Republic.

Keywords: small and medium enterprises; microenterprises; sole trader; entrepreneur; legal forms of business.

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ВПЛИВ ЗАКОНОДАВЧИХ ЗМІН НА МАЛИЙ ТА СЕРЕДНІЙ БІЗНЕС СЛОВАЧЧИНИ

У статті описано зміни відносно юридичних форм ведення бізнесу в Словаччині, а також проаналізовано сучасний стан малого та середнього бізнесу країні в контексті законодавчих змін та оновлених правил оподаткування.

Ключові слова: малі та середні підприємства; мікропідприємства; фізична особа-підприємець; підприємець; юридичні форми бізнесу.

Табл. 3. Літ. 11.

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ВЛИЯНИЕ ИЗМЕНИВШЕГОСЯ ЗАКОНОДАТЕЛЬСТВА НА МАЛЫЙ И СРЕДНИЙ БИЗНЕС СЛОВАКИИ

В статье описаны изменения касательно юридических форм ведения бизнеса в Словакии, а также проанализировано текущее состояние малого и среднего бизнеса страны в контексте изменившегося законодательства и правил налогообложения.

Ключевые слова: малые и средние предприятия; микропредприятия; физическое лицо-предприниматель; предприниматель; юридические формы бизнеса.

Introduction. Small and medium enterprises play a fundamental role in European economy making up 99% of all the companies operating in Europe and providing about 67% of the total EU employment. We have also to remind here that most of large companies have once started as SMEs.

During socioeconomic changes which took place on the territory of former Czechoslovakia, one change can be considered as the most essential one. This change was the rise of private ownership and the subsequent status of an entrepreneur. In the past 25 years the status of an entrepreneur has gone through numerous phases and changes, political, economic and legislative ones.

SMEs are important for economic and social reasons. They are the providers of a range of essential products and services used in daily lives, from a hairdresser to electronic companies. SMEs provide high quality and diverse employment opportunities, employees may not allow for significant career advance, but the diverse set of skills required to work in an SME is good for job quality and satisfaction.

Slovak Republic started to pay significant attention to SMEs since 1989–1990, i.e., after the Velvet Revolution. In economic terms, this means respecting market

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relations. At the same time development of small and medium-sized enterprises became possible. For better understanding of its development we would like to present here the most important events concerning small and medium enterprises:

- 1989 – Velvet Revolution in Czechoslovakia – a shift to market orientation;
- 1993 – Slovakia became independent;
- 2004 – Slovakia became the member of the European Union;
- 2009 – Slovakia adopted the euro and entered the euro zone, changes in economic rules;
- 2013 – Evaluation of the first 5 years in the euro zone;
- 2014 – consequences of the crisis in Ukraine, changes of economic rules.

Development of small and medium enterprises in Europe overall started after 1971, the Bolton's conference. Thus, this process in Slovakia had the delay of 20 years and started from scratch. European economy and economic theory started to pay significant attention to SMEs after 1971 due to adoption of the so-called Bolton's report. According to this report SMEs have a relatively small market share and practically not affect the market significantly, SMEs are managed by owners, families and not through formal management structure (this is a definition used also for family business) SMEs are independent companies not forming part of a larger company. Bolton's report is an important step in the creation of SMEs theory in the European Union.

The subject of this paper is ascertaining the legal forms of companies in Slovakia and their position based on the research analyzing the state of SMEs and defining new regulations and their impact on SMEs in Slovak Republic. This paper contains analysis and evaluation of the state, development and problems of small and medium-sized businesses in Slovakia, 2014.

Methodology and background. In 2013–2014 a research on the sample of 1000 respondents was carried out – these were small and medium-sized businesses. The questionnaires were sent by students in different regions. The return was about 68%, i.e. 686 were returned. There were 55 questions with optional 5 secondary questions and replies in the questionnaire. The research task was approached according to the chosen 8 basic areas which were further elaborated into individual questions. The basic areas of the conducted research were: basic data about the business; company structure – legal form; human resources; competitive and technological strategy; innovations; company networks; financial relationships and insurance.

From the standpoint and conclusions following the given research, our sample consists mostly of entrepreneurs – legal persons. Natural persons were not in the core of our research and they were minimally represented in the sample. However, it needs to be pointed out that in Slovakia natural persons are the most numerous group of entrepreneurs.

In assessing different regions there are significant differences with the exception of Bratislava region, where about a third (33%) of all SMEs are located. It is evident that this region has the highest number of small and medium-sized businesses, accounting for both legal persons and sole traders (Statistický urad SR, 2014).

The Position of SMEs in Slovak Republic. It would be misleading to think that European economy is dependent on large multinational enterprises. The opposite is actually true. Small and medium-sized enterprises play the key role in the economy

of the whole European Union, and Slovak Republic is not an exception (Mrva and Stachova, 2013). SMB are no doubt the cornerstone of Slovak economy. Since their establishment the viability of small and medium-sized enterprises has continuously grown, and they have been credited with important attributes due to the fact that their resiliency became the driving force of market economy.

Slovak economy recovered quickly from the recent recession, and in 2013 and 2014 it showed one of the highest growth rates in the European Union. Economic growth was predicted to increase further in 2015. Slovakia is considered as a reliable and trustworthy member of the eurozone. Through a combination of tax increases, measures improving the efficiency of tax collection, and expenditure cuts, Slovakia managed to reduce its fiscal deficit from 8% in 2009 to less than 3% in 2013 and 2014, exiting from the European Commission's Excessive Deficit Procedure in June 2014 (Kenuer and Malova, 2015).

According to A. Fabian (2011) specific goals for further development of SMEs can be set as support of newly established SMEs and expansion of the existing ones; restructuring of production processes taking into account efficiency and energy saving; using innovative technologies and efficient information flow; introduction of Environmental Management and Audit Scheme (EMAS); encouraging the participation on international exhibitions and fairs; establishment of professional counselling centres for entrepreneurs.

The definition of SME is important for access to finance and EU support programmes targeted specifically at these enterprises. SMEs are defined in the European Commission Recommendation 2003/361 and the main factors determining whether an enterprise is an SME are: staff headcount, or turnover, or balance sheet total (EC, 2016).

SMEs come in many different shapes and sizes; however, in today's complex business environment they may have close financial, operational or governance relationships with other enterprises. These relationships often make it difficult to precisely draw the line between an SME and a larger enterprise. The SME definition is a practical tool designed to help SMEs identify themselves so that they can receive the full support of the EU and its Member States (EC, 2015a).

SMEs are defined as businesses which employ less than 250 staff and with an annual turnover of less than 50 mln EUR, and/or their balance sheet total is less than 43 mln EUR. In 2014 more than 22 mln SMEs were active in the EU-28, they employed almost 90 mln people and accounted for 58% of the value added generated by the EU-28 non-financial business sector (EC, 2015b).

Segmentation of SMEs in Slovak Republic is based on the European Commission Recommendation 2003/361 which came into force in 2005. According to the criteria based on the number of employees, annual turnover and annual balance, we can distinguish 3 types of SMEs: micro-, small and medium-sized.

In SR natural persons are represented by entrepreneurs in legal forms of small trade licensees, freelancers and independent farmers. In 2013 more than two thirds (67.8%) of the total number of active SMEs in Slovakia were natural persons – entrepreneurs. Legal entities represent 32.2% of SMEs (SBA, 2014).

Within natural persons the dominant representation belongs to small trade licensees (92.3%). In 2013 more than a quarter (26.2%) of active small trade licensees

carried out their main business activities. More than one-fifth of small trade licensees were engaged in industry and 14.2% – in trade services, 6.8% small trade licensees worked in transport, information and communications activities, 6.7% in other services, 3.7% in accommodation and catering, and finally 3.7% – in agriculture (SBA, 2014).

Table 1. Number of natural persons – entrepreneurs in SR, 2013 (SBA, 2014)

NATURAL PERSONS – ENTREPRENEURS			
SMALL TRADE LICENSEES	FREELANCERS	INDEPENDENT FARMERS	TOTAL
352,707	21,925	7,579	382,211
92.3%	5.8%	2.0%	100%

Table 2. Number of legal entities – enterprises in SR, 2013 (SBA, 2014)

LEGAL ENTITIES – ENTERPRISES				
MICRO	SMALL	MEDIUM	LARGE	TOTAL
165,896	12,734	2,660	624	181,914
91.2%	7.0%	1.5%	0.3%	100%

From the sectoral point of view, the largest representation of SME was in trade services (31.7%) and trade (29.1%). In transport and information and communication activities it was 9.1%, in the industrial sector – 8.8%, construction – 8.0%, in other services – 6.5%, in hotels and restaurants – 3.7% and in agriculture – 3.2% (SBA, 2014).

Table 3. The size structure of the business sector in SR and in EU (SBA, 2014)

	SIZE OF ENTERPRISE					TOTAL
	Micro	Small	Medium	SMEs	Large	
EU-28 (2011)	20,449,000	1,381,000	225,000	22,055,000	44,000	22,099,000
	92.5%	6.2%	1.0%	99.8%	0.2%	100%
SLOVAKIA (2013)	545,859	14,898	2,744	563,501	626	100%
	96.8%	2.6%	1.0%	99.9%	0.2%	100%

The share of microenterprises in the total number of businesses in SR is higher than in the EU. According to the statistical data for V4 countries (Czech Republic, Hungary, Poland and Slovakia) at the end of 2012 in Czech Republic active were 1,124,000 business entities, in Poland – 3,269,000 and 629,000 in Hungary. In Slovakia, the number of active business entities in 2012 reached 552,000. Per 1,000 economically active persons the highest number of businesses was registered in Czech Republic (213.8). In Slovakia, this number was 204, in Poland – 188.5 and in Hungary – 144.4 (SBA, 2014).

From a more detailed analysis of legal entities in Slovakia we can clearly see that Slovak economy is developing in favour of the increase in the number of legal entities, with one exception, and that is a problem of the growth or decrease in the number of entrepreneurs and self-employed farmers. At the end of 2014, the number of self-employed people was 400104, while before joining the European Union, in 2003 there were 306356 self-employed people in Slovakia traders, their number continued

to grow. For example, in 2009 we had already 387876 self-employed and their number further grew to 415000. The global economic crisis caused a significant decrease in this number (each year – by about 10000). Slowly their number get back to the pre-crisis level (SBA, 2014).

Another fact is that the change of economic rules substantially implemented already in 2013 meant that many self-employed people changed their legal form to the limited company. The main reason was that they considered the application of new economic rules to be much simpler.

Key changes in economic instruments since 2015. Slovakia faced the task of reducing the deficit below 3% of GDP. It was decided, inter alia, to change economic instruments. These changes will influence the effectiveness of SMEs business results.

First of all, we have to mention that no entity or individual (resident or non-resident) may realize any "for profit" business activity on a regular basis without having an appropriate trade license. These licences can be issued by the trade licensing office or by special state authorities and are required for particular business activities. The Trade Licencing Act distinguishes between free trader without requiring special qualification, craftsman trades requiring special education and regulated trades where special qualification, such as technical certificates and examination are required (KPMG, 2015).

Changes in legislation regulating self-employed business namely include: cancellation of the self-employment license (repeal of licensed self-employment) and the change in the division of self-employments. Self-employment till 1st of June, 2010 licensed, are classified as regulated. Since 1st of June, 2010 self-employment is divided into handicraft, regulated and unregulated. Licenses and concession documents will be cancelled and replaced by certificates. Changes are also prepared in charges reporting. We can appreciate the extension of services provided by one-stop place, shorter period for the issue of certificates, determination of the maximum length of the interruption trade for 3 years, introduction of a six-month extension of the practice for craft and reduced bureaucracy.

By the amendment of the law, trade licensing offices were given new competencies – they set the so-called "single contact point". At this point, a starting entrepreneur can fulfil all administrative requirements associated with a trade license. And at the same time he/she can register for health insurance and in the tax office.

Last decades in Slovakia witnessed almost permanent changes in taxation. Slovak tax system comprises the following taxes:

- Income taxes (personal income tax, corporate income tax).
- Value added tax (VAT).
- Excise duties.
- Motor vehicle tax.
- Municipal taxes (including real estate tax).
- Special levy for regulated entities.
- Bank tax.

A taxpayer should register with tax authorities by the end of the month following the month in which permission to conduct business in Slovakia was obtained (KPMG, 2015).

Changes in income taxes concern the contribution system – amendment of the maximum amount of flat expenses to 5040 EUR per year and 420 EUR per month. New progressive income taxation with two tax rates – 19% and 23% with a limit in tax relief for wife/husband was introduced. In new taxation rules voluntary contributions into Second Pillar of Insurance in the amount of 2% is preferred. New rules were also implemented for depreciation losses. In the area of contributions the maximum base was increased and united. Methods of contribution calculation were changed and the minimum pensionable earnings level for self-employed people was increased. The obligation to pay contributions to revenue under agreements, concession from contribution and automatic termination of voluntary insurance was introduced.

Other changes in income tax concern the depreciation of property, limitation of expenses, and cancelation of certain tax expenditures to obviate the possibility of reducing tax expenditure provisions, such as unbilled deliveries, holidays etc., limitation of representation expenses, tax prepayments, more effective administration in postponement of tax declaration. Recalculation of the amount for tax bonus is now on 1st of January and not on the 1st of July as it was before. The amount of tax bonus was frozen for the whole year. Entrepreneur has to tax his income from immaterial damage.

The current VAT system was adopted on the 1st of May, 2004 when Slovakia became the member state of the EU and the VAT Act is based on EU Council Directive 2006/112/EC.

Inadequacies with regard to taxation in the EU hamper the progress of SMEs considerably, since unlike big enterprises SMEs do not have special staff to handle the problems with VAT payments etc. (Vesterdorf, 2005).

Frauds with VAT were one of the most important issues of the Financial Administration, and fighting these frauds has led to creation of a new unit, the so-called Financial Cobra.

Changes in VAT include the introduction of the "Control statements". Since the beginning of 2014, there is an obligation of exclusively electronic communication. Control statement presentation should serve to match operations between taxable persons so that to avoid tax fraud. New rules are applied for summary statement – monthly when the trade value exceeded 50,000 EUR for the last calendar quarter. Control statement has a new term – on the date of tax declaration, or 25 days after the end of the tax period.

All doctors and taxi drivers have to implement a new virtual cash register to be able to issue bills for received payments.

The most significant changes in depreciation are as follows:

1. Cars will be depreciated differently. The maximum price of a car which can be written off by an entrepreneur and because of that end in a loss, will be 48,000 EUR. They cannot write off more even if a car is more expensive.

2. Shorter depreciation for technologies – reduced depreciation period, from 12 to 8 years. Entrepreneur can annually depreciate a larger amount and pay lower tax. However, this change will not be applied to all industries and machines, only for specific ones. For example, for turbines, furnaces, burners, gas generators, metallurgy machinery etc.

3. Longer depreciation for non-production buildings. For example, administrative buildings, but also hotels, can be depreciated up to 40 years instead of 20. During that long period they will be able to write off smaller amounts. In practice, they will pay more tax.

In order to reduce the administrative burden on business in 2013 the Act on Accounting was amended. The amendment defines a new kind of entity – the so-called microaccounting unit.

SMEs positively evaluate the regulations of grants for business. Conditions for receiving grants for new business establishment are still tightened. Grant payment is now in the amount of 2: 60% upon signing the agreement and 40% one year after business launch. Re-utilization of grant is possible only after 8 years.

SMEs can also ask for contributions to youth employments. Companies can apply for higher contribution from the state for creating jobs for young people. As of 1st of January, 2015, an amendment to the Employment Services Act was adopted with the aim to promote young people employment after graduation or after leaving early or at the end of compulsory education did not receive regular paid employment. These contributions to support jobs creation by employers can be received through labour offices.

Changes were also adopted at the institutional level. Since 28th, February, 2014 the former National Agency for Development of SMEs, crucial and the oldest specialized non-profit organization for SME support in SR, changed its name to Slovak Business Agency (SBA). This Agency was founded by the common initiative of the EU and the Government of SR. The funding members include the Ministry of Economy of SR, Entrepreneurs Association of Slovakia and Slovak Association of Crafts. SBA supports SMEs in compliance with the Small Business Act's principles, to improve the competitiveness of SMEs within the single EU market as well as at non-EU markets. Fundamental change was in the approach of SBA to be more effective in its comprehensive provision of services to entrepreneurs. The new framework has developed in this regard the law on support for small and medium enterprises.

Conclusion. Small and medium enterprises play the critical role in the EU economy. The importance of SMEs is evident also in SR and the number of small and medium-sized businesses is the basic quantitative indicator which also mirrors in the overall quality of business conditions. Although SMEs are indispensable elements of market economy, they are struggling with the problems related to difficult access to financial resources, especially in terms of alternative sources of financing. Reasons which are leading to the fall of SMEs rest in the inadequate sales of products and services. Administrative obstacles hinder further development of SMEs, which include disarranged legislation for entrepreneurship, high administrative and tax burden in Slovakia, underdeveloped supporting infrastructure.

From the detailed analysis of legal entities in Slovakia it is obvious that Slovak economy is developing in favour of the increase in the number of legal entities, with one exception, and that is a problem of the growth or decrease in the number of entrepreneurs and self-employed farmers.

Despite some positive impact of new regulations on SME in Slovakia, such as the possibility to arrange almost all necessary administrative duties on one place and improvement of electronic communication with various authorities, according to the

entrepreneurs the business environment does not improve. Tax payments are still among the highest in the EU, and presentation of statements means administrative burden for SMEs. SMEs see another problem also in the frequent changes of legislation. They do not have qualified staff to respond effectively and quickly enough. And they still have problems with access to finance.

Although SMEs in Slovakia still do not have such conditions as they should have according to their importance, we can conclude that in recent years there have been still positive changes. New institutional and legislative conditions and support from the European Union shape the entrepreneurial environment for better use of the country's business potential.

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