

Annex 5: REFORMS IN SLOVAKIA 2002-2006 AND THEIR POTENTIAL IMPACT ON THE NGO SECTOR¹

Reform	Aims of the reform	Five key measures	(Potential) impact on the NGO sector
Tax reform	<ul style="list-style-type: none"> ▪ Create business and investment friendly environment ▪ Eliminate existing weaknesses and inefficiencies in the tax law ▪ Eliminate distortive roles of tax policy as instruments for achieving non-fiscal goals ▪ Improve tax fairness by taxing all types and all amounts of income equally <p>Principles:</p> <ul style="list-style-type: none"> ▪ Fairness, Neutrality, Simplicity, Exactness, Effectiveness, Double taxation elimination <p><u>Basic precondition for achieving above described aims is respect for pillar principles of the reform:</u></p> <ul style="list-style-type: none"> ▪ Shift from direct to indirect taxes - from taxation of production to taxation of consumption ▪ Cancellation of progressive income marginal taxation by introduction of a flat rate, ▪ Elimination of virtually all exceptions (with individuals, exceptions remained to help cope with ageing population), special regimes and tax exemptions ▪ Elimination of distorting elements in tax policy, which served to pursue non-fiscal aims ▪ Elimination of double taxation, where it is possible 	<ul style="list-style-type: none"> ▪ Introduction of flat income tax rate of 19 % for individuals as well as businesses ▪ Simplification of VAT rates at 19 % ▪ Elimination of dividend tax ▪ Elimination of inheritance, gift taxes, and real estate transfer tax ▪ Elimination of virtually all exceptions, exemptions, deductions, special rates, and special regimes 	<ul style="list-style-type: none"> ▪ Abolition of benefits and allowances for NGOs, including tax deduction for donations as of 2004 ▪ 1% tax designations (of individual and business taxpayers) increase to 2% from 2004 onwards ▪ Abolition of the need of repeated registration in the Register of recipients of tax designations– later reintroduced ▪ Initials attempts to limit tax exemption on NGO income from related activities up to SKK 300,000 failed. The exemption was finally abolished at the end of 2006
Pension	<ul style="list-style-type: none"> ▪ Contribute to reaching long-term sustainability 	<ul style="list-style-type: none"> ▪ Introduction of strong fully-funded (capital) 	<ul style="list-style-type: none"> ▪ Probably no direct influence on NGOs

¹ Source: Mikloš, 2005

reform	<p>of public finances threatened by unfavourable demographic developments</p> <ul style="list-style-type: none"> ▪ Strengthen the meritoriousness of pension system, meaning expected pension should reflect the level of previous contributions to the system ▪ Increase motivation to save on long-term basis 	<p>pillar</p> <ul style="list-style-type: none"> ▪ Rise in retirement age ▪ Introduction of meritoriousness principle in the pay-as-you-go pillar ▪ Introduction of new valorisation mechanism for existing pensions. 	
Health-care reform	<ul style="list-style-type: none"> ▪ Create system of flexible instruments for health policy implementation ▪ Change the position and tasks of the state in the health-care system from active actor to effective regulator ▪ Increase patient responsibility ▪ Secure balanced, financially sustainable management of the health-care system. ▪ Increase quality of services in health care and create a competitive environment. 	<ul style="list-style-type: none"> ▪ Clearing the health-care system of debt ▪ Introduction of fees for services connected with health-care provision ▪ Transformation of health insurance companies into joint stock companies ▪ Possibility to define flexibly the level of public funds in the system through “intelligent scheme of participation” ▪ Introduction of strict budgetary rules for all actors in the system 	<ul style="list-style-type: none"> ▪ Hospitals are being privatised and transformed into joint stock companies or Non-Profit Organizations Providing Generally Beneficial Services (which qualify as recipients of 2% tax designations)
Social system and labour market reform	<ul style="list-style-type: none"> ▪ Support growth of employment ▪ Support working families ▪ Create flexible labour market ▪ Support activities of unemployed and their motivation to search for work ▪ Increase direct help to the disabled 	<ul style="list-style-type: none"> ▪ More flexible Labour Code, ▪ Introduction of allowances and system promoting back-to-work initiatives ▪ Lowering tax and insurance levies for work ▪ Shift payment of sickness insurance benefits in the first 10 days of sickness leave to employers ▪ Introduction of tax and insurance levy bonus per child 	<ul style="list-style-type: none"> ▪ Potential NGO involvement in back-to-work initiatives and other employment schemes targeting the unemployed
Education reform	<ul style="list-style-type: none"> ▪ Support more efficient way of regional educational system funding ▪ Lower demands for administration of schools through decentralisation ▪ Create conditions for gradual realisation of reform of education ▪ Secure gradually opportunities for access to quality university education for all citizens, who show interest and potential for successful graduation 	<ul style="list-style-type: none"> ▪ Introduction of a transparent way of normative financing ▪ Transformation of state administration system in regional educational system ▪ Preparation of reform of regional educational system ▪ Transformation of university education system according to new law on universities ▪ Distribution of subsidies to universities according to performance criteria 	<ul style="list-style-type: none"> ▪ Probably no direct influence on NGOs

	<ul style="list-style-type: none"> ▪ Solve effectively long-term problem of the under-financed university education system 		
Public administration reform	<ul style="list-style-type: none"> ▪ Adjust the state-region-municipality-citizen relationship so that problems are dealt with at the level where they can be most effectively solved ▪ Change the territorial division within Slovakia and introduce a three level model of public administration ▪ Strengthen local communities ▪ Introduce a new system of financing and support financial independence of local government administrations ▪ Increase responsibility of local government administrations for efficient public administration and regional policy 	<ul style="list-style-type: none"> ▪ Decentralisation of competencies ▪ Reform of local government ▪ Change of territorial division (institutional change) ▪ Fiscal decentralisation ▪ Municipal reform 	<ul style="list-style-type: none"> ▪ More competencies, responsibilities and funds at local level support closer cooperation between local NGOs and local government ▪ Deepening of cross-sector cooperation and contracting out of services, especially in the field of social service provision or regional development projects (also funded by EU) ▪ Local government grant-making schemes for NGOs ▪ Schools, universities, hospitals and even local governments set up their own NGOs (QUANGOs) – that qualify as recipients of 2% designations ▪ Growing importance of community foundations
Business and investment environment reform	<ul style="list-style-type: none"> ▪ Improve business environment legislation and make it more effective ▪ Reduce bureaucracy ▪ Make judicial system more effective ▪ Improve accessibility to financial resources 	<ul style="list-style-type: none"> ▪ Lowering of corporate income tax ▪ Labour law more flexible ▪ Judicial system more efficient and legislation simpler ▪ Company registration quicker ▪ Priority surcharge in land register 	<ul style="list-style-type: none"> ▪ Probably no direct influence on NGOs, except for attempts to harmonise commercial activities of NGOs with businesses
Public finance management reform	<ul style="list-style-type: none"> ▪ Transparency of public finances, fluid and problem-free financing of state responsibilities ▪ Programme budgeting and multi-year budget ▪ Higher quality macro-economic and fiscal analyses and prognoses ▪ Change of rules in public finances (new budgetary rules) ▪ Concentration of finances in state treasury and financial savings 	<ul style="list-style-type: none"> ▪ Tough budgetary restrictions and introduction of ESA95 methodology ▪ Establishment of State Treasury and Debt and Liquidity Management Agency ▪ Introduction of three-year budget ▪ Introduction of programme structure based budgeting ▪ Increase of analytical capacities of Ministry of Finance 	<ul style="list-style-type: none"> ▪ Abolition of predefined use (for sports) of the lottery proceeds in law – proceeds become direct income of the state budget ▪ Ministry grant-making schemes to NGOs continue to become more transparent and predictable