

**Slovakia**

**Parliament breaks a taboo: tax incentives for lifelong learning**

The Slovakian right-wing government introduced a tax reform whose professed aim was to make the system as simple and transparent as possible by introducing a 19 % flat rate for VAT, income and corporate taxes and excluding almost all tax exemptions. The message was clear: tax policy should be kept separate from social policy. Accordingly the Ministry of Finance also repeatedly refused to approve of tax incentives proposed in support of initial VET (for enterprises) and in support of CVET (for individuals)- though such support to lifelong learning could be viable, given the low number of adults in education and training (4.3 % in 2006, Eurostat - far below the EU benchmark of 12.5 %).

But an exception to this principle has now been introduced. The parliament decided to provide tax allowance for some categories of medical staff (see box) who participate in specialised continuing education. On the basis of the 19 % flat tax rate, this decision reduces study costs by one fifth.

Putting pragmatism above theoretical purity in order to achieve the desired social effects may seem to be a positive development. But things are not that simple. Why should only certain categories receive this benefit? Why only certain kinds of CVET? The Ministry of Health says it supports tax incentives only for categories of staff that are in shortage. But this begs the question: will lowering the cost of training make it possible to replace the hundreds of specialists who have left the country for higher wages abroad? Clearly, lower costs may encourage people to enter training, but cannot stop them from leaving the country. Moreover, the law can be considered discriminatory against physiotherapists, laboratory workers and other categories of medical staff. The Ministry of Labour pointed out that the law requires continuing training for several other professions. Other professionals may require, and other ministries may propose, similar measures on the basis of the Anti-Discrimination Act and even the Constitution, putting taxation policy into question.

A further complication with income tax deductions is that fiscal decentralisation in the Slovak Republic is primarily based on the distribution of individual income tax. Specifically, 6.2 % of revenues from individual taxes remains in the State budget, with 93.8 % going to self-administration. Any loss in individual income taxes is thus felt much more keenly in the regions than in the State budget. This, and any similar future decisions, will therefore make a debate on the principles of fiscal decentralisation inevitable.

All told, the parliament's decision to support the income tax deduction for continuing professional development of medical staff in effect signals that it is time:

- to accept tax deductions as an instrument in support of CVET/LLL; and

- to open a debate about the policy-making instruments: both about how tax income is shared and how fiscal decentralisation works, and how taxation should be used in support of education and training.

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**Costs of study and the income tax collection decrease according to number of students of three scenarios (equal to 2005, including all staff, estimated for 2008)**

	Number of graduates			Costs year in 1000 SK****			Income tax decrease *** in 1000 SK****		
	2005*	All**	2008e	2005	All	2008	2005	All	2008
Dentist	22	2 870	50	220	28 700	500	41.8	5 453	95
Medical doctor	581	16 707	1 000	5 810	167 070	10 000	1 103.9	31 743.3	1 900
Nurse	1 502	34 007	3 000	5 257	119 024.5	10 500	998.83	22 614.655	1 995
Obstetric nurse/Midwife	43	1 739	100	430	6 086.5	350	81.7	1 156.435	66.5
<b>Total</b>	<b>2 148</b>	<b>55 323</b>	<b>4 150</b>	<b>11 717</b>	<b>320 881</b>	<b>21 350</b>	<b>2 226.23</b>	<b>60 967.39</b>	<b>4 056.5</b>

Source: Ministry of Health

\* number of graduates in 2005 according to the Ministry of Health

\*\* figures equal to all staff active in respective categories (hypothetical maximum of students yearly)

e - estimated upper limit of students applying tax reduction in 2008 \*\*\* the loss in collection of income tax caused by reduction applied (19 % of the maximum tax deductible item 10 000 Sk for medical doctors and dentists, and 3 500 Sk for and nurses and obstetric nurses/midwives)

\*\*\*\* EUR 1 = SKK 35.4424 according to ERMII central rate of 19th March 2007