AN ASSESSMENT OF SELECTED TAX BURDENS AND RELIEFS OF HIDDEN CHAMPIONS: THEORETICAL COMPARISON BETWEEN SLOVAKIA AND IRELAND

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Abstract

The purpose of the paper is to review and evaluate selected tax burdens and reliefs between Slovakia and Ireland in relation to a specific type of globally successful innovative company introduced to scientific literature as “hidden champion” (HC) by Simon (1990). In the process of writing the work, the following methods of comparison, logical generalization, analysis, and synthesis were used. The results showed that both countries lack in providing specific regime in research and development (R&D), corporate income; and value-added tax (VAT) aspects to small and medium-sized enterprises (SMEs) (including HCs). Moreover, as reported by Ibec (2019), small companies face several challenges to their growth due to taxation. A parallel view on two countries (tax heaven and a classic approach country) provides a great prospect on all gaps in the taxation system. Although improvements are predicted and confirmed every second year, tax policy in the analyzed countries is not fully matched to current situations. The work reveals for the first time the fact that there are few specialized programs for SMEs, getting an exemption or applying for relief is difficult. In general, there is a lack of studies devoted to taxes within the concept of “hidden champions”. This paper contributes to this field from the perspective of policymaking, and it provides valuable insight for practice.

Keywords: Hidden Champions, SME, Tax Burden, Tax Relief, Corporate Income Tax, R&D Tax

1. INTRODUCTION

The first publication about a specific type of globally successful, highly innovative, and relatively unknown companies was introduced by Simon (1990). Hermann Simon invented this term, explained the importance and a huge contribution of “hidden champions” (HCs) for Germany and German-speaking countries, set the list of criteria to identify or recognize HCs among companies, and finally studied their strategies, strategic approaches, competition advantages, financial indicators, and other aspects to reveal their success factors and best practices. The concept of HCs was later studied also in other cultural contexts and from various (broader or narrower) perspectives and it is popular among researchers nowadays (Fryges, 2006; Din, Dolles, & Middel, 2013; Purk, Saginova, Skorobogatykh, &
This phenomenon has been investigated also in Slovakia (Táborecká-Petrovičová, Daňo, & Bobáková, 2013; Táborecká-Petrovičová, Daňo, & Budinsky, 2021) within more complex international research projects mapping especially CEE countries in which researchers were interested also in various factors (involving also financial ones) from the external environment influencing the potential success of HC. Although numerous authors from different countries underline gaps in the taxation system and the need for a specific regime for HCs in Braček Lalic and Purg’s work (2021). Singer and Peterka (2021) focused on the analysis of selected countries, there was no research done in form of comparison in order to find the golden mean that can be used as a starting point for HCs’ policymaking. Therefore, we aim to cover this gap in the literature in this work.

The relevance of the topic is since currently taxes and the tax system are not only sources of budget revenues, but also the most important structural elements of the economy. Without the formation of a suitable model of the tax system, the right choice of tax regulation tools, it is impossible to implement an effective tax system, and, consequently, transform the economy. The taxation of enterprises is at the crossroads of all socio-political and economic interests of society. The success of an individual and corporate business, and therefore the wealth of the nation as a whole, depends on how the tax burden is rationally defined and dispersed between payers. Taxes play a significant role in the activities of enterprises, since for them they are the disposal of funds, and enterprises seek to minimize these costs.

In the conditions of the development of a highly competitive economy, more and more attention is paid to the development of hidden champions (HCs) and small and medium-sized enterprises (SMEs) in general as the basis of market formation and competition. In this regard, the issues of taxation of SMEs also receive close attention. For the first time, the study demonstrates that specialized programs for SMEs are few and that obtaining an exemption or applying for relief is challenging. In general, research devoted to taxes within the concept of “hidden champions” is scarce. This study contributes to the area from the standpoint of policymaking, as well as offers practical advice.

This paper consists of six sections with the first being an introduction. Section 2 reviews the relevant literature of hidden champions and selected tax burdens/reliefs. Section 3 introduces the methodology that has been used in this paper. Section 4 presents results of tax burdens/reliefs in Slovakia and Ireland for SMEs (including HCs). Section 5 offers a detailed discussion of taxes application within hidden champions. Section 6 concludes the findings of the paper.

### 2. LITERATURE REVIEW

As per Simon (2012), hidden champions are a mostly untapped source of information. Many of these highly successful businesses are hidden behind a veil of obscurity, invisibility, and, in some instances, deliberate secrecy, all over the world. This applies to the goods these organizations produce, how they compete, and, perhaps most importantly, how they are controlled within. Only a few professionals, consultants, reporters, and scholars are familiar with their names. This secrecy contrasts sharply with the HCs’ powerful positions in their sectors. Simon (1996) mentioned three conditions to qualify as HCs in his study: 1) it must be number one or two in a global market or number one in the European market in terms of market share; if market share is unknown, a company must be a leader comparative to its top competitors; 2) it must be small or medium in size and unknowable to the public, with total sales of less than $1 billion; (in 2012 work, this amount was modified to €5 billion); 3) it must have low public visibility and awareness. Nowadays, as Purg et al. (2016) state, due to continually changing market dynamics, HCs selection criteria alter from those defined by Hermann Simon.

Since there is no classification of HCs at the legislative level, we use the classification of SMEs, which refers to the two countries studied.

### Table 1. Classification of SMEs

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of employees</th>
<th>Annual turnover in mil. of Euros</th>
<th>Balance sheet total in mil. of Euros</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro enterprises</td>
<td>0–9</td>
<td>to 2</td>
<td>to 2</td>
</tr>
<tr>
<td>Small enterprises</td>
<td>10–49</td>
<td>to 10</td>
<td>to 10</td>
</tr>
<tr>
<td>Medium enterprises</td>
<td>50–249</td>
<td>to 50</td>
<td>to 41</td>
</tr>
</tbody>
</table>

Source: Commission recommendation 2003/361/EC.

The definition of SMEs becomes particularly interesting for a company if it wants to apply for some form of state aid. Because precisely these criteria are followed by various institutions that provide support programs for medium, small, and micro-enterprises. However, to be classified to the appropriate size category, businesses must meet the provided employment criteria as well as either the turnover threshold or the maximum balance sheet amount, as Bergner, Bräutigam, Evers, and Spengel (2017) state. Whether a business is independent, partnered, or connected also plays an important role in whether a business can receive public support. Business is considered independent if it owns less than 25% in another business and/or another business owns less than 25% in your business. Partnered and connected enterprises monitor higher percentages. Quite simply, a company with shares of up to 25% has the character of an independent enterprise, shares of between 25 and 50% are partner companies and higher shares (above 50%) are connected enterprises. Most enterprises meet the definition of an independent enterprise. However, if there are any property links within a business, it is better to assess the situation using the specific provisions set out in the European Commission Recommendation (Šrenkel, 2016).
Bergner et al. (2017) also note, while there is widespread agreement on the need for an appealing business environment for SMEs, it is less clear how to develop one. In comparison to large businesses, SMEs have challenges in terms of funding, competition failures, and excessive regulatory burdens. An appealing business environment reduces the impact of these barriers and attempts to level the playing field for businesses of all sizes, industries, and legal structures. Taxation is, of course, an important part of the regulatory framework under which businesses function. It is a significant and unavoidable expense component for all enterprises. Taxation is a very interesting component of the business environment for policymakers because it may be directly altered and regulated through legislation. However, tax law is sometimes overly and incorrectly used to address issues unrelated to taxation, and the establishment of a neutral and efficient tax system suffers as a result.

One of these times could be the utilization of tax incentives targeted exclusively towards SMEs (including private family businesses, private partnerships, and the restructuring of former government-owned businesses. Many of these businesses start as family businesses, and some of them stay that way throughout their growth and development, thanks to the social connections and networks that company founders and leaders form in their respective fields. As Ibec (2019) reports, although Ireland is a reasonably straightforward country to start a business in, Irish small businesses encounter a number of obstacles to their growth. Lynn (2015) adds if a company does research and development (R&D) in Ireland, worth verifying if the spending qualifies for the R&D tax credit. The tax credit is based on a quarter of the cost of carrying out research, and incremental permitted amounts. Furthermore, the Finance Act of 2012 established the concept of a qualifying corporation giving up some or all of its R&D tax credit to a key employee. The uncertainty over what constitutes qualified R&D activity is a continual source of anxiety for all companies seeking R&D tax credits (and SMEs in particular, because they have fewer resources to cope with penalties and interest if they get it incorrectly).

Revenue.ie. (2017) provided some assistance for small businesses on this issue. Revenue will agree that the activities are qualified under the applicable tax legislation if a small or micro-enterprise receives Enterprise Ireland/IDA funds for its R&D activity and the amount of the R&D tax credit claim in an accounting period is less than €50,000. Although there is recognition that these standards are excessively low and will only provide relief in a tiny number of circumstances, there is no sign that this concession will be enlarged.

Purg et al. (2016) point out that in rapidly growing markets, HCs can come from a variety of sources, including private family businesses, private partnerships, and the restructuring of former government-owned businesses. Many of these businesses start as family businesses, and some of them stay that way throughout their growth and development, thanks to the pooled personal resources that family members contribute as well as the social connections and networks that company founders and leaders form in their respective fields. Considering the previous paragraph, note that a bigger share of HCs may not apply for an R&D tax credit since there is a little deception as mentioned by O’Connell (2018), the key employee must not be a director of, or have a “material interest” in the company (i.e., hold at least 5% of the company’s shares). Most SMEs will disrupt this criterion since they have a small pool of overlapping shareholders, directors, and key workers.
According to O’Connell (2018), the maximum outsourcing spending constraints are another issue that reduces the incentive for R&D growth. The amount of R&D work that can be outsourced to third parties is limited to 15% of in-house R&D costs, or €100,000 (whichever is greater). The amount of R&D work that can be outsourced to universities is limited to 5% of in-house R&D spending, or €100,000 (whichever is greater). These restrictions run counter to worldwide best practice, which usually encourages collaboration between innovative enterprises and/or educational institutions. They also disproportionately affect SMEs, as a collaborative approach may be the only way for an SME to advance with limited resources.

SMEs may have greater obstacles than larger corporations do in allocating and developing internal resources necessary to effectively connect with universities and capitalize on their research outputs, according to Ibec (2019). To expand absorptive capacity and participate in any research partnership, these businesses will require further governmental assistance. Too many SMEs miss the opportunity to fully realize the promise of R&D activities, and too few have the knowledge and skills to grow, appraise, and utilize the situation. Blackburn, Merrilees, Tiessen, and Lindman (2001) underline the importance of a clear (signature) orientation within interaction and strategic drivers, with the central importance of innovation and relationship marketing. A relationship should be a top concern for any small business (Behara, Fontenot, & Gresham, 2002).

The Knowledge Development Box (KDB) system, which supports the R&D tax credit and is the second phase of incentive policy for research and innovation, was also adopted in Ireland, according to O’Connell (2018). The R&D tax credit is available for expenditures on qualified R&D activities, but earnings emerging from the exploitation of a qualifying asset derived from these same R&D activities are subject to a 6.25% corporate tax rate under the KDB regime. While many believe that the new regime is aimed at global corporations, Irish SMEs may stand to benefit the most. The KDB regime benefits enterprises that conduct most or all of their fundamental R&D operations in Ireland, which would obviously include Irish SMEs. The qualified asset criteria also have two components that benefit Irish SMEs. To begin with, a qualifying asset under the mainstream KDB regime covers both patented innovations and computer programs. Irish IT businesses that conduct R&D in Ireland and are eligible for an R&D tax credit may be eligible for a reduced corporate tax rate of 6.25% on future profits. Moreover, there is a KDB regime tailored to SMEs, which applies to businesses and groupings with annual revenues of less than €50 million and KDB earnings of less than €7.5 million. Computer programs, as well as new or beneficial discoveries that do not need to be copyrighted, are considered qualified assets for these businesses.

A hybrid R&D tax allowance is used in the Slovak Republic to provide R&D tax relief. A volume-based tax allowance of 100% is applied to eligible R&D expenses, up from 50% for labor costs and 25% for other qualifying expenditures in 2017. The qualifying R&D expenditures two years ago are the base amount above which 50% of subsequent R&D expenditures qualify for a 100% incremental tax credit (25% in 2017). Unused credits can be carried forward for four years if there is minimal tax due, as per OECD (2019). Except for size-adjusted eligibility criteria for R&D investment incentives, the Slovak Republic has no specific tax measures for small and medium-sized firms. Some investment incentives may even harm small businesses because they need minimum investments of up to €3 million. According to Bergner et al. (2017), start-up costs for new businesses are deductible when they are incurred. Nevertheless, as OECD (2019) reports, in 2017, the Slovak Republic was one of the countries with the lowest level of government funding for company R&D as a proportion of GDP, at 0.02%.

Figure 1. Direct government funding of business R&D and tax incentives for R&D, 2017 (nearest year)
As per percentage of GDP

Source: OECD (2019).

In 2019, the Slovak Republic's marginal tax subsidy rate for profit-making (loss-making) SMEs was predicted to be 0.28% (1-B-Index, by firm size and profit scenario). During the 2015–2019 period, loss-making businesses received a lower tax subsidy rate than profit-making businesses thanks to a four-year carry-over option, according to OECD (2019). Within the Operational Programme Research and Innovation, the government fervently promotes investment opportunities and consciousness of technology and R&D centers under SARIO. There is no indication that local organizations can take...
advantage of these priorities. Some of the reliefs that relate directly to our topic include: 1) attractive investment incentives (state-aid) scheme for R&D and technology centers; 2) special R&D tax regime — additional tax deduction for R&D expenses up to 200%; 3) an adequate combination of domestic and foreign as well as public and private R&D institutions (SARIO, n.d.).

Nevertheless, some blind spots may change the company’s mind to apply for tax relief. As Hallová (2019) mentions, “the problem of Slovakia is not the percentage [of tax relief] — it is already comparable with the Czech Republic (110 percent) and Poland (150 percent) — but the terms. For example, companies must provide a detailed description of the project for which they have applied for tax relief, and this information is then published online. As a result, everyone knows exactly what R&D they are working on, and in a highly competitive environment, companies are loyal to the three-year corporate tax-free period only if the government declares support for research and development, many of the approved measures are not being effective. In the European Union, Slovakia is one of the leaders informally introducing new reforms; however, their quality and particularly their implementation utterly lag (Hallová, 2019). The regulatory burden was also mentioned by respondents in Singer and Peterka’s (2021) research as the most serious barrier to their innovative businesses, not only because of complicated and occasionally contradictory regulatory requests, but also because of delayed and slow reactions to changes, and even more so because instability makes changes unpredictable and too frequent, with no real purpose.

2.2. Corporate income taxation

According to Hand, Lawlor, and O’Leary (2012), SMEs in Ireland must pay a preliminary corporate tax payment equal to at least 90% of the final liabilities for the accounting period one month before the end of the accounting period (by the 21st of the month). This payment can be 100% of the ultimate prior-year liability for a corporation with a prior-year tax liability of less than €200,000. In each of the first three years of trade, start-up enterprises that began trading on or after January 1, 2009, and have a corporation tax liability of less than €40,000 are exempt from corporation tax.

This exemption was renewed with some changes and additions in further years. As Lynn (2015) mentions, “new business start-ups that commence to carry out a new trade before 31 December, 2015 should consider whether they qualify for the three-year corporate tax-free holiday.” A company can get a full exemption from corporate tax where its corporate tax liability does not exceed €40,000. The full relief is linked to the amount of employer PRSI (Pay Related Social Insurance) paid. Partial relief is available to a company where its corporate tax liability is between €40,000 and €60,000, with no relief being available where the corporate tax liability is €60,000 or more. Also, in this case, companies “must not exceed the PRSI contributions made (max. €5,000 per employee)” (Bergner et al., 2017).

However, Hand, Lawlor, and O’Leary (2012) determines the number of corporate tax benefits and reliefs that can help businesses lower their tax bills. When a firm takes out a loan to buy shares in another company or provide a loan to another company, the interest paid on the loan can be claimed as corporation tax relief. The company in which the shares are acquired or to which the money is given must be a trading company or a holding company of a trading company to qualify for the exemption. In order to qualify for the relief, a number of other requirements must be completed.

In the case of a sole trader, all profits should be liable to income tax at a rate of 20% up to the standard rate band, and then at the marginal rate, which is now 41% (PRSI, the health contribution, and the income levy may also apply). Trading gains should be taxed at 12.5% in a company setting, with only profits extracted from the business (by director’s salary/dividend, etc.) subject to income tax, PRSI, the health contribution, and the income levy. This may allow the corporation to build up reserves that can be used to fund future business expansion or diversification. In the case of a sole trader, reimbursement can be claimed for trading losses against any other income received in the current year. This results in income tax savings of up to 41%. Losses that exceed other revenue are not considered lost. Instead, they can be used to offset future profits forever, indefinitely. Companies can carry back any excess trade losses after those used in the current year against profits from the prior year, resulting in a return of corporation tax already paid.

In the Slovak Republic, according to Bergner et al. (2017), for new companies, start-up expenses are deductible when incurred. As Teplicka (2018) notes, “in order to minimize the tax burden on local taxes, entrepreneurs consider regionally differentiated tax burdens. In the case of income tax, entrepreneurs consider decisions of long-term nature, including choosing a suitable form of business, choosing the way to apply tax expenses, choosing the way to procure long-term tangible and intangible assets, choosing the depreciation method, and using the possibility of aborting the depreciation, non-taxable and deductible items from the tax base, the possibility of applying the tax deducted as a tax advance. Income tax in the Slovak legal system is a common denomination of two types of taxes: the income tax of a general pension and the corporate income tax. Many EU countries complain that some Member States have an unfair advantage from low corporate tax rates*. This is done “to motivate Western European companies to shift production”.

The Law on Investment Incentives allows for corporate income tax savings. The Law on Research and Development Incentives may potentially provide some company income tax relief. The Ministry of Economy or Ministry of Finance, as the case may be, must approve the relief. If a taxpayer does not claim corporate income tax reduction under the Law on Research and Development Incentives, a new special regime for research and development expenses, effective January 1, 2015, can be claimed when certain conditions are met, as written in the summary provided by Accace (2020).

The latest approvals from the National Council of the Slovak Republic in summer 2019 brought some new amendments to the income tax. Some of them, related to our topic, are effective since January 1, 2020, such as the following. The corporate income tax is charged at a rate of 21%. However, beginning January 1, 2020, taxpayers with annual
revenues of less than €100,000 are eligible for a reduced tax rate of 15%. Because dividends paid out of 2020 profits are not taxed in the hands of shareholders if the shareholders are corporate and based in a state other than the non-cooperating state, this is the final tax burden on 2020 corporate profits in some situations, as reports Accace (2020). A year earlier, Accace (2019) reported that an employee’s income granted to him/her by the employer in accordance with the Labor Code in the form of a contribution to a child’s sports activities would likewise be tax-deductible. This will apply to contributions of up to 55% of approved expenses, but no more than €275 every calendar year, and to all employees’ children. The costs of such donations will be tax-deductible expenses for the employer.

Some changes are effective as of January 1, 2021. The definition of “a micro-taxpayer” was introduced into the VAT registration threshold (VAT registration threshold) for the tax period. A legal entity with income up to the stated amount is also considered a micro-taxpayer. The definition also includes a negative definition, e.g., for related parties conducting a controlled transaction (Accace, 2019). Micro-taxpayers have additional benefits which potentially may be widened in the future. The government of Slovakia is taking measures in this direction and future changes may be foreseen in the next quinquennial.

2.3. Value-added tax

According to Simon (2012), a huge amount of HCs’ items goes overlooked by customers. Many of these firms work in the “hinterlands” of the value chain, delivering machinery, components, or processes that are no longer visible in the end product or service. In 1971, Ireland enacted VAT in preparation for its 1973 membership in the European Economic Community (EEC). The regular VAT rate in Ireland is now 23%, although there are additional reduced rates of 13.5% and 9%. Certain goods and services, including exports, are subject to zero-rate VAT, as per Revenue.ie (n.d.). VAT returns and payments are normally filed bimonthly in Ireland, but there are streamlined solutions available for traders with reduced VAT liabilities. For those traders whose total VAT payments for the year are €3,000 or less, biannual filing and payment are required. For traders whose total VAT payments for the year are between €3,000 and €14,000, four monthly filings and payments are required; dealers who pay by direct debit only need to file one annual return at the conclusion of their accounting period, according to Hand, Lawlor, and O’Leary (2012). This slightly changed in the following years, and “businesses are exempt if their turnover does not exceed €37,500. Moreover, small businesses do only have to file returns and make VAT payments every 6 months (instead of every 2 months) if their VAT payments do not exceed €3,000 and only every 4 months if payments are below €14,400” (Bergner et al., 2017).

In Slovakia, SMEs (including HCs), as mentioned earlier, were already exempted from paying VAT if their income is up to €49,790. The standard rate of 20% and a reduced rate of 10% are not applicable for export purposes of goods and services. When examining a VAT scheme, it is worthwhile to consider the situation in nations where VAT rates have been reduced but the effective rate has improved. Furthermore, there are countries where VAT rates have remained unchanged yet the effective tax rate has improved significantly. Such countries (2000–2019) include Estonia, Lithuania, Malta, Poland, Portugal, and Slovakia, as per Kowal and Przekota (2021). The tax return may be applied by any claimant having a registered business, institution, residence, or habitual abode in the Slovak Republic and acquired goods and services in another Member State with the tax of the appropriate State (or traded in goods into another Member State) for business.

3. RESEARCH METHODOLOGY

The paper aims to identify the impact of selected tax burdens/reliefs of hidden champions in Slovakia and Ireland. This paper is qualitative in nature with no intention to quantify tax burdens or reliefs. Ireland was chosen because of its low corporate tax rate, which has made it a popular tax haven for many businesses. The choice of Slovakia is due to the interest of the author.

The object of research is hidden champions (HCS). A systematic and integrated approach was chosen as the methodological basis of the paper to justify the relationship and interdependence of the competitive advantage of enterprise and the allocation of its main functions. Whereas the quantitative data demonstrated specific relationships, qualitative data were needed to explain those relationships (Yin, 2018). In the process of writing the work, the following methods were used:

- Comparison — as a tool for developing classifications of social phenomena and for establishing whether shared phenomena can be explained by the same causes (Hantrais, 1995).
- Logical generalization — to generate formal, generalizable findings of one particular study that can be applied to unexamined subjects and contexts (Allen, 2017).

These methods were used as supportive to obtain derived information resulting from processing data from the financial reports, interviews with the CEO, information on the company website. Other general methods, such as analysis and synthesis, were used in the paper to reveal the essence and role of competitive advantage in the enterprise system. While the analysis method was picked due to “reduce data to a story” and interpret it to derive insights (LeCompte & Schensul, 2010, p. 2), selection of synthesis is justified by its “common purpose — to summarize, synthesize, or integrate research findings from diverse studies” (Schick-Makaroff, MacDonald, Plummer, Burgess, & Neander, 2016, p. 178). The following assumption was put forward for the purpose of this paper: Ireland is one step ahead of the Slovak Republic and has better policies, lower burden, and specialized reliefs to support SMEs (including HCs) in their formation, development, and performance.

4. RESULTS AND DISCUSSION

Based on the previous section, the author considers the main differences in initiatives for selected categories in the two countries to clearly see the pros and cons.
Although R&D tax looks attractive from a numbers perspective in Slovakia, there are pitfalls in conditions and certain limits applied. The same applies to VAT — Slovakia has a higher turnover cap for exemptions. Corporate income relief purely depend on liabilities and revenues of companies which makes it complicated to evaluate.

The role of hidden champions in making a breakthrough in a number of the most important areas of scientific and technical progress is important; these business units also make a significant contribution to the formation of a competitive environment. The government’s taxation policy encourages the growth of small businesses (including HCs). With a relatively narrow tax base and a large range of tax advantages, the essence of tax policy is a phased reduction in marginal tax rates and a drop in the progressivity of taxation. Reducing the tax rate depending on the size of the enterprise is one of the methods of taxation of small enterprises. If we single out the main problem associated with doing business considering only mentioned taxes, it is the bureaucracy and all that is connected with it. The slowness of the functioning of the system, difficulties in interacting with regulators, with everything that the state as such is.

To a greater extent, the confusion and complex spelling of the law, the absence of specific criteria in some cases by which the initiative is provided as a consequence creates conditions where it is easier for SMEs to pay back what is understandable, albeit more expensive. On the other hand, in the case of misunderstandings, corruption in state institutions providing these exemptions also increases.

There is no data on how many hidden champions apply the simplified taxation system and provide services to large and medium-sized businesses. Nonetheless, as per Kahl, Raimzhanova, Serikbekov, and Kazak (2021) these businesses frequently received government assistance or subsidies. However, it is clear: working with such entrepreneurs provides a significant advantage since contributions paid to them do not pay contributions to extrabudgetary funds. Customer enterprises can begin to directly or indirectly exert pressure on hidden champions — “hinterlands” who provide services to them in order to transfer the latter to the payment of VAT, which will be beneficial to customers and will have an extremely adverse effect on HCs. As Schwab (2019) reports Slovakia was ranked 135th (out of 141 countries in a survey) in terms of burden of government regulation, and 119th in ensuring policy stability, which puts Slovakia in the lowest 25% of ranked countries. Singer and Peterka (2021) in their research were able to identify a need for tax reliefs in selected countries, including Slovakia.

Based on the review, a business does not suffer from VAT to such an extent, but from a high tax burden and its uneven distribution between enterprises of different regimes and even between individual entities. The fact is that to understand the real tax burden when paying VAT, it is not enough to make calculations for one enterprise. There is a need to calculate the entire value chain. Moreover, if the chain is long, then the transition to VAT can, on the contrary, reduce the tax burden. A reduction in the tax burden will also occur in cases where individual participants in the chain paid VAT before the reform (for a significant part of the cost of the final product), but then it was impossible to take it into the offset in the chain. Then, in this case, the chain wins. Therefore, if the tax burden has increased on one’s company, but the chain as a whole has won, then the next links in the chain are beneficial to buy goods with VAT, albeit at a higher price than without VAT. Accordingly, the chain compensates for increased tax costs. The final buyer will receive the goods at a lower price, and, therefore, most likely, the demand for the products of the chain will increase, and, for the final products.

6. CONCLUSION

It should be noted that taxation of firms, tax payments are an integral element of the economic activity of enterprises. The tax system occupies one

<table>
<thead>
<tr>
<th>Tax type</th>
<th>Ireland</th>
<th>Slovakia</th>
</tr>
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<tbody>
<tr>
<td>R&amp;D</td>
<td>Pros: Tax credit — 25% of expenditure of scientific/technical activities; KDB — reduced 6.25% corporate tax rate; SME specific regime. Cons: Tax credit — unclear “qualifying” conditions; not applicable for overlapping shareholders; limits in outsourcing/collaboration; not designed for SMEs in particular; KDB — limit of €7.5 million profit under the regime.</td>
<td>Pros: Hybrid R&amp;D tax allowance — volume-based allowance of 100% to qualifying R&amp;D expenditure; incremental tax allowance of 100% to R&amp;D expenditures with above 50% in base amount; carry-over option for 4 years; SARIO incentive — designed for SMEs; tax deduction for R&amp;D expenses up to 200%; state-aid for R&amp;D; possibility for outsourcing/collaboration. Cons: SARIO incentive — designed for foreign investors only.</td>
</tr>
<tr>
<td>Corporate income</td>
<td>Pros: Three-year full exemption from corporate tax for companies with liabilities below €40,000; partial relief for companies with corporate tax liability between €40,000 and €60,000; Sole-trader corporate tax relief up to 41%; Limitations with PRSI contributions made.</td>
<td>Cons: Regional differentiated taxes; low corporate tax rates in comparison to the Member States; reduced tax rate of 15% for companies with revenues below €100,000; introduction of micro-taxpayers.</td>
</tr>
<tr>
<td>VAT</td>
<td>Pros: Zero rates apply to export; VAT returns available; exemptions for companies with turnover below €37,500. Higher than a minimum tax rate of 15%.</td>
<td>Cons: Fulfilment of certain conditions; Slightly higher than a minimum tax rate of 15%.</td>
</tr>
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</table>

Table 2. Reliefs comparison table for Ireland and Slovakia

Source: Author’s elaboration based on literature review.

Although R&D tax looks attractive from a numbers perspective in Slovakia, there are pitfalls in conditions and certain limits applied. The same applies to VAT — Slovakia has a higher turnover cap for exemptions. Corporate income relief purely depend on liabilities and revenues of companies which makes it complicated to evaluate. The role of hidden champions in making a breakthrough in a number of the most important areas of scientific and technical progress is important; these business units also make a significant contribution to the formation of a competitive environment. The government’s taxation policy encourages the growth of small businesses (including HCs). With a relatively narrow tax base and a large range of tax advantages, the essence of tax policy is a phased reduction in marginal tax rates and a drop in the progressivity of taxation. Reducing the tax rate depending on the size of the enterprise is one of the methods of taxation of small enterprises. If we single out the main problem associated with doing business considering only mentioned taxes, it is the bureaucracy and all that is connected with it. The slowness of the functioning of the system, difficulties in interacting with regulators, with everything that the state as such is.

To a greater extent, the confusion and complex spelling of the law, the absence of specific criteria in some cases by which the initiative is provided as a consequence creates conditions where it is easier for SMEs to pay back what is understandable, albeit more expensive. On the other hand, in the case of misunderstandings, corruption in state institutions providing these exemptions also increases.

There is no data on how many hidden champions apply the simplified taxation system and provide services to large and medium-sized businesses. Nonetheless, as per Kahl, Raimzhanova, Serikbekov, and Kazak (2021) these businesses frequently received government assistance or subsidies. However, it is clear: working with such entrepreneurs provides a significant advantage since contributions paid to them do not pay contributions to extrabudgetary funds. Customer enterprises can begin to directly or indirectly exert pressure on hidden champions — “hinterlands” who provide services to them in order to transfer the latter to the payment of VAT, which will be beneficial to customers and will have an extremely adverse effect on HCs. As Schwab (2019) reports Slovakia was ranked 135th (out of 141 countries in a survey) in terms of burden of government regulation, and 119th in ensuring policy stability, which puts Slovakia in the lowest 25% of ranked countries. Singer and Peterka (2021) in their research were able to identify a need for tax reliefs in selected countries, including Slovakia.

Based on the review, a business does not suffer from VAT to such an extent, but from a high tax burden and its uneven distribution between enterprises of different regimes and even between individual entities. The fact is that to understand the real tax burden when paying VAT, it is not enough to make calculations for one enterprise. There is a need to calculate the entire value chain. Moreover, if the chain is long, then the transition to VAT can, on the contrary, reduce the tax burden. A reduction in the tax burden will also occur in cases where individual participants in the chain paid VAT before the reform (for a significant part of the cost of the final product), but then it was impossible to take it into the offset in the chain. Then, in this case, the chain wins. Therefore, if the tax burden has increased on one’s company, but the chain as a whole has won, then the next links in the chain are beneficial to buy goods with VAT, albeit at a higher price than without VAT. Accordingly, the chain compensates for increased tax costs. The final buyer will receive the goods at a lower price, and, therefore, most likely, the demand for the products of the chain will increase, and, for the final products.

6. CONCLUSION

It should be noted that taxation of firms, tax payments are an integral element of the economic activity of enterprises. The tax system occupies one
of the key positions in the financial management of the enterprise. A hidden champion that does not pay certain taxes or obtains reliefs is not some kind of special legal form. In this capacity, an enterprise of any form can act from a private entrepreneur to a limited liability company. The question of choosing a form of ownership is decided by the entrepreneurs themselves, but this right should be applied only if preliminary calculations have shown that it is profitable.

Tax legislation in reviewed countries is not fully suited to the current conditions, although changes are foreseen and confirmed every second year. Its main disadvantages are the following: excessive tightness, confusion, the presence of a large number of benefits for various categories of payers that do not stimulate the growth of production efficiency nor accelerate scientific and technological progress, do not introduce promising technologies nor increase the output of consumer goods. In general, tax policy follows the changes, instead of going ahead and stimulating these changes. The complexity of understanding and fulfilling requirements may even push enterprises away from initiatives. Besides, the lack of specialized programs for SMEs leaves little chance of obtaining an exemption or applying for relief. In addition, worth mentioning the limitations of the paper — there is no quantitative research involved. Thus, there is no projection of tax burdens/reliefs in selected countries. This paper gives a great starting point to calculate and show the difference between two countries’ policies in numbers.

REFERENCES


