

SELECTED ASPECTS OF SUBSISTENCE MINIMUM IN SLOVAKIA

Alžbeta Suhányiová,¹ Ladislav Suhányi²

Abstract: The subsistence minimum is a socially recognized minimum level of income for a person; any person whose income is below this level is considered to be in material need. It is one of the key elements of socio-political interventions; in that it binds with important functions in different areas. The level of minimum wage in Slovakia has not changed for the last four years, and now, this issue is a subject of extensive discussions in professional and scientific circles. The paper describes the subsistence minimum and presents the significant legislative changes that affect the functions of the subsistence minimum. The paper analyses, examines, and evaluates the development of the subsistence minimum of: an adult natural person, of another jointly assessed adult person, of non-dependent underage children, and of dependent children – in the period from 1998 to 2016 (the present). The paper also reflects on the current situation in dealing with the issue of the subsistence minimum and its impact on selected social benefits and personal income taxes in Slovakia. The results of the research helped us to propose recommendations on the issue of setting the subsistence minimum and the whole issue as such.

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Introduction

According to the Act no. 601/2003 Coll. on the subsistence minimum, it is the socially recognized minimum level of personal income below which a person is considered to be in material need.

The first federal law on the subsistence minimum (Act no. 463/1991 Coll.) came into force in July 1991. Originally the subsistence minimum served two important functions. First, it served as a threshold for assessing a person's entitlement to social benefits. This function of the subsistence level has remained unchanged. Secondly, it served as a guaranteed minimum income threshold for those who were without any other income or their income did not reach the subsistence minimum. Income lower than the subsistence minimum was considered insufficient to ensure the livelihood and other basic needs of the person. The progressive nature of this legislation is evident when one considers the fact that it had been drawn up one year before the Recommendation 92/441 /EEC on common criteria concerning sufficient resources and social assistance in social protection systems.

After the split of Czechoslovakia the law on the subsistence level remained a key component of the social security system in the Slovak Republic. During the 90s a series of amendments to this law has been adopted. The aim of these amendments was to valorize the subsistence minimum to reflect inflation.

The new Act no. 125/1998 Coll. on the subsistence minimum and on fixing of the amounts for the purpose of state social benefits, as amended, was the result of a comprehensive policy and research efforts encouraged by the Concept of social sphere transformation. This law defined the subsistence minimum in the same way as the previous one (a socially recognized minimum level of personal income below which a person is considered to be in material need) the subsistence minimum continued to function as a reference point of the social security system. Act no. 195/1998 Coll. on social assistance which was adopted concurrently with the Act on the subsistence minimum served as a basis for the implementation of the minimum income guarantee system. This law thus made the first steps towards the division between the subsistence minimum and social assistance (minimum income schemes) and disrupted the function of the subsistence minimum guarantee as socially recognized minimum income.

The Ministry of Labour, Social Affairs and Family of the Slovak Republic is entitled to take steps governing the subsistence minimum on July 1 of each calendar year based on the growth rate of net cash income per capita or the growth rate or the cost of living of low-income households for the decisive period. The decisive period in which the growth of the cost of living of low-income households is being ascertained is: the period from April of the previous calendar year to April of the current calendar year (Horváthová, 2016a). The data are provided by the Statistical Office of the

¹ University of Prešov, Faculty of Management, Konštantínova 16, Prešov, Slovakia, alzbeta.suhanyiova@unipo.sk

² University of Prešov, Faculty of Management, Konštantínova 16, Prešov, Slovakia, ladislav.suhanyi@unipo.sk

Slovak Republic. The subsistence minimum according to Art. 5 par. 2 of Act no. 601/2003 shall be adjusted by multiplying the subsistence minimum with the following:

- growth rates of net cash income per capita published by the Statistical Office of the Slovak Republic - if the growth rate of net cash income per capita resulting from the comparison of the first quarter of the current calendar year and the first quarter of the previous calendar year is lower than the growth rate of the cost of living of low-income households for the decisive period, or
- the growth rate of the cost of living of low-income households published by the Statistical Office of the Slovak Republic - if the growth rate of the cost of living of low-income households for the decisive period is lower than the growth rate of net cash income per capita published by the Statistical Office of the Slovak Republic for the period of the first quarter of the current calendar year in comparison with the first quarter of the previous calendar year.

The amount of the subsistence minimum is not amended if one of the above-mentioned coefficients is lower than one or equal to one. This measure prevents the reduction of the subsistence minimum and the benefits associated with it.

The analysis of the development of the subsistence minimum

The subsistence minimum is therefore a socially recognized minimum level of personal income below which a person is considered to be in material need. Its level is adjusted annually, usually on July 1 of the calendar year. The following section examines the development of the monthly subsistence minimum amounts in Slovakia. The reference period is nineteen years, starting with the date on which Act no. 125/1998 Coll. came into force to the present (2016).

Table 1: The overview of the subsistence minimum in the Slovak Republic in the years 1998 - 2016

Valid from	One adult person in EUR	Change in EUR (in %)	Another jointly assessed adult natural person in EUR	Change in EUR (in %)	Independent minor child and dependent child	Change in EUR (in %)	Regulation
1/7/1998	99.60		69.71		44.81		Act no.125/1998
1/7/1999	107.22	+7.62 (7.65%)	75.02	+5.31 (7.62%)	48.46	+3.65 (8.15%)	Regulation no.160/1999
1/7/2000	115.85	+8.63 (8.05%)	80.99	+5.97 (7.96%)	52.45	+3.99 (8.23%)	Regulation no.187/2000
1/7/2001	125.80	+9.95 (8.59%)	87.96	+6.97 (8.61%)	57.09	+4.64 (8.85%)	Regulation no.232/2001
1/7/2002	130.45	+4.65 (3.7%)	91.28	+3.32 (3.77%)	59.09	+2.00 (3.50%)	Regulation no.285/2002
1/7/2003	139.75	+9.30 (7.13%)	97.60	+6.32 (6.92%)	63.40	+4.31 (7.29%)	Regulation no.213/2003
1/7/2004	152.03	+12.28 (8.79%)	106.22	+8.62 (8.83%)	69.04	+5.64 (8.90%)	Regulation no.372/2004
1/7/2005	157.01	+4.98 (3.28%)	109.54	+3.32 (3.13%)	71.37	+2.33 (3.37%)	Regulation no.262/2005
1/7/2006	165.31	+8.30 (5.29%)	115.51	+5.97 (5.45%)	75.35	+3.98 (5.58%)	Regulation no.415/2006
1/7/2007	170.28	+4.97 (3.01%)	118.83	+3.32 (2.87%)	77.67	+2.32 (3.08%)	Regulation no.291/2007
1/7/2008	178.92	+8.64 (5.07%)	124.81	+5.98 (5.03%)	81.66	+3.99 (5.14%)	Regulation no.225/2008
1/7/2009	185.19	+6.27 (3.50%)	129.18	+4.37 (3.50%)	84.52	+2.86 (3.50%)	Regulation no.252/2009
1/7/2010	185.38	+0.19 (0.10%)	129.31	+0.13 (0.10%)	84.61	+0.09 (0.11%)	Regulation no.300/2010

1/7/2011	189.83	+4.45 (2.40%)	132.42	+3.11 (2.41%)	86.65	+2.04 (2.41%)	Regulation no.194/2011
1/7/2012	194.58	+4.75 (2.50%)	135.74	+3.32 (2.51%)	88.82	+2.17 (2.50%)	Regulation no.191/2012
1/7/2013	198.09	+3.51 (1.80%)	138.19	+2.45 (1.80%)	90.42	+1.60 (+1.80%)	Regulation no.186/2013
1/7/2014	198.09	0	138.19	0	90.42	0	
1/7/2015	198.09	0	138.19	0	90.42	0	
1/7/2016	198.09	0	138.19	0	90.42	0	

Source: Author³

Since 1998, the subsistence minimum of one adult person increased by 98.49 EUR (nearly 98.89 %), of another jointly assessed adult person by 68.48 EUR (98.24%) and of independent minor child and dependent child by 45.61 EUR (101.79 %).

The highest increase of the subsistence minimum was recorded on July 1 2004. In the case of an adult person the increase of the subsistence minimum amounted to 12.28 EUR (8.79%), in case of another jointly assessed adult person the increase of the subsistence minimum amounted to 8.62 EUR (8.62%) and in case of independent minor child and dependent child the increase of the subsistence minimum amounted to 5.64 EUR (8.90 %).

In recent years, the coefficients for the valorization assessment of the subsistence minimum are below one (Horváthová, 2016b). We can therefore conclude that given the negative development of the growth rate of the cost of living of low-income households (now 0.994), the subsistence minimum level has remained "frozen" in the past years. Therefore, the Ministry did not issue any regulation that would alter the subsistence minimum level, and according to available information the Ministry does not plan to do so in 2017 either.

The currently valid amount of the subsistence minimum per household is specified in the table below.

Table 2: The subsistence minimum per household in the Slovak Republic			
The subsistence minimum per INDIVIDUAL	EUR	The subsistence minimum per COUPLE	EUR
The subsistence minimum of an individual, ie adult person without children	198.09	The subsistence minimum of a couple without children	336.28 [198.09 + 138.19]
▪ with 1 dependent child	288.51 [198.09 + 90.42]	▪ with 1 dependent child	426.70 [198.09 + 138.19 + 90.42]
▪ with 2 dependent children	378.93 [198.09 + (2 x 90.42)]	▪ with 2 dependent children	517.12 [198.09 + 138.19 + (2 x 90.42)]
▪ with 3 dependent children	469.35 [198.09 + (3 x 90.42)]	▪ with 3 dependent children	607.54 [198.09 + 138.19 + (3 x 90.42)]
▪ with 4 dependent children	559.77 [198.09 + (4 x 90.42)]	▪ with 4 dependent children	697.96 [198.09 + 138.19 + (4 x 90.42)]

Source: Author⁴

As already mentioned above, the subsistence minimum remains unchanged for the third year in a row: one adult person 198.09 EUR per month, for another jointly assessed adult person in the household 138.19 EUR per month, the independent minor child or dependent child 90.42 EUR per month. The subsistence minimum is calculated according to the following formula: 100% for the first adult in the household, 70% for each another jointly assessed adult person in the household, and 45% for each child.

³ The table was prepared by own processing based on data from Measures of the MoLSAF (from 1999 to 2016).

⁴ The table was prepared by own processing based on the Regulation by MoLSAF no. 186/2013.

The analysis of the impact of the subsistence minimum on the selected social benefits and taxes on personal income

The economic indicator "subsistence minimum" has an impact on social benefits (Paliderová, 2016), the amount of which depends on the subsistence minimum. It influences, for example, parental allowance, child allowance, the supplement to the child allowance, minimum maintenance, maintenance payments, allowances to support substitute care for a child, repeated financial contributions to compensate severe disability, early retirement or the amount of the minimum pension. The subsistence minimum has an impact on the level of the tax bonus, the amount of tax allowances, the amount of the tax base above which an individual is a subject to a higher rate of income tax (25%). The following section analyzes the impact of the subsistence minimum on the amount of selected social benefits and the amount of income tax.

Early retirement pension – according to paragraph 2 of the Act no. 461/2003 Coll. the entitlement to early retirement pension arises, in addition to other factors, only to an insured person whose early retirement pension is greater than 1.2 times the subsistence minimum for an adult person as of the date a person requested such an allowance. The minimum amount of early retirement pension is therefore 237.80 EUR per month.

Minimum pension – the amount of the minimum pension is affected by, among other factors, the subsistence minimum in force on January 1 of the current calendar year. The minimum pension is at the level of the subsistence minimum 198.09 EUR and increases depending on the number of years worked. For example, for 30 years worked, the minimum pension is 269.50 EUR (1.36 times the subsistence minimum), for 40 years worked the minimum pension is 311.10 EUR (1.57 times the subsistence minimum), for 50 years worked the minimum pension is 370.50 EUR (1.87 times the subsistence minimum).

Income execution – the levy on an income execution (wage deductions or pension deductions) shall not withhold basic amount, which is 100% of the subsistence minimum. At present, this amount is 198.09 EUR.

Child maintenance – minimal maintenance under Art. 62 paragraph. 3 of Act no. 36/2005 Coll. is 30% of the subsistence minimum of a dependent child, which currently amounts to the 27.13 EUR for 1 child.

Tax bonus – tax bonus is a form of tax relief for a dependent child living with a taxpayer in a shared household, which reduces the income tax paid by a taxpayer. A taxpayer is entitled to the tax bonus provided he had a taxable income in the calendar year:

- from employment of at least 6 times the minimum wage (2 430 EUR),
- from business or other self-employed activity at least equal to 6 times the minimum wage and reported the tax base from these activities.

Tax bonus increases on January 1 of the tax year on the basis of the same coefficient as the subsistence minimum. The amount of monthly tax bonus for a dependent child is 21.41 EUR. The annual amount of the tax bonus that a taxpayer could claim per 2016 is 256.92 EUR. In 2017, this amount remains unchanged since the living wage in 2016 has not increased.

Nontaxable part of a base tax – the taxpayer may annually apply the nontaxable part of the tax for a dependent spouse or himself.

Table 3: Determination of the nontaxable part of a base tax for taxpayer	
<i>The tax base for the taxpayer in EUR</i>	<i>Nontaxable part of a base tax in EUR</i>
≤ 19 809 (100-times the subsistence minimum)	3 803.33 (19.2-times the subsistence minimum)
> 19 809	8 755.578 (44.2 times the subsistence minimum) - 1/4 of the tax base
≤ 35 022.31 (176.8-times the subsistence minimum)	0
Source: Author ⁵	

⁵ The table was prepared by own processing in accordance with the Act no. 595/2003 Coll. on Income Tax, as amended.

The taxpayer may annually apply the nontaxable part of the tax if the tax base is less than 100-times the subsistence minimum – 3,803.33 EUR per year, which is equivalent to 19.2 times the current amount of the subsistence minimum. Monthly nontaxable part of the tax is 316.94 EUR (3,803.33 : 12 = 316.94 EUR). If the tax base exceeds 100-times the subsistence minimum, then the tax allowance is calculated as the difference between 44.2 times the subsistence minimum and 1/4 tax base. If the result is equal to or less than zero, the tax allowance on the taxpayer will be zero.

The taxpayer is entitled to apply the nontaxable part of the tax for the spouse who lives with the taxpayer in the shared household and meets at least one of the following conditions: takes care of a dependent minor child, receives a financial allowance for nursing a member of family, or has been registered with the Labour office, or is considered a disabled person. The amount of the nontaxable part of the tax for the spouse showed in the table below depends not only on the amount of the taxpayer's tax base, but also on the amount of spouse's income.

Table 4: Determination the nontaxable part of a base tax for spouse

<i>The tax base for the taxpayer in EUR</i>	<i>Spouse</i>	<i>Nontaxable part of a base tax in EUR</i>
≤ 35 022.31	does not have own income	3 803.33
	has own income	3 803.33 – spouse's income
	income > 3 803.33 EUR	0
> 35 022.31	does not have own income	12 558.906 (63.4- times the subsistence minimum) - 1/4 base tax
	has own income	12 558.906 - 1/4 of base tax - spouse's income
< 50 235.63	income is not taken into account	0

Source: Author⁶

It follows that the subsistence minimum has a significant impact on personal income taxes. Specifically, the subsistence minimum influences the amount of nontaxable part of a base tax for a taxpayer and spouse (see Tables 3 and 4), as well as the obligation to file a tax return, minimum tax, and the use of the appropriate tax rate. Due to the limited extent of the paper we will not research this issue any further.

Conclusion

The subsistence minimum can be easily described as the sum necessary for one's survival. It should be sufficient for basic needs, namely one hot meal a day, necessary clothing and shelter. The highest increase in the subsistence minimum was recorded in 2004, almost 9%. Since 2013, the growth rate of the cost of living of low-income households (≤ 1) has been developing negatively, therefore the subsistence minimum is also stagnating. If the subsistence minimum does not increase, the contributions that state pays parents, students, families in need, etc... also do not increase.

We see the current form and function of the subsistence minimum in a very negative light since the subsistence minimum stopped serving its original purpose – to protect those in need. Since the subsistence minimum should cover the basic human needs, its current form needs a serious revision. The subsistence minimum should reflect the actual needs and purchases of low-income families. We expect the subsistence minimum to become much more meaningful.

According to Kusá (2010), too low income makes it impossible for the household to "behave as it should." The minimum income (the subsistence minimum, however, has no longer the character of a minimum income) in other civilized societies saves households from bad decisions (hunger, not paying bills, absenteeism in schools, etc.) and prevents households from getting into poverty.

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⁶ The table was prepared by own processing in accordance with the Act no. 595/2003 Coll. on Income Tax, as amended.

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