Taxpayers to verify NACE code with tax authority by 1 May 2/9/24

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Companies are currently working hard to prepare their financial statements for a statutory audit, so this is the right time to revise and update their basic business information. There is a general obligation often neglected by taxpayers because it seems insignificant: the State Revenue Service (SRS) must be duly notified of the taxpayer's core economic activity according to the statistical classification of economic activities NACE 2.0, deployed uniformly across the EU. In this article we stress the importance of this obligation, remind you of the deadlines, make a few practical recommendations, and describe the proposed migration to NACE 2.1 designed to improve statistical comparability.

How taxpayers benefit from the industry classifier

The EU internal market successfully uses statistical standards for gathering, transmitting and publishing data to ensure government agencies, financial institutions, companies and other internal-market participants can access reliable and comparable statistics. So it's important for the taxpayer's economic activity to be classified and interpreted uniformly across the EU.

In practice taxpayers tend to pursue several lines of business at the same time and generate revenue from each, yet no taxpayer can have more than one core economic activity. This is determined according to the revenue stream that represents the largest percentage in total revenue for the tax year. Taxpayers that have just started their business will determine their core economic activity according to their anticipated revenue figures. If the plan fails and another economic activity turns out to be more profitable, the taxpayer is permitted to adjust their core economic activity each year.

Notifying the SRS of the taxpayer's core economic activity is not just another formality to comply with the law. Reporting the right NACE code has far-reaching practical implications:

- The taxpayer is able to objectively assess the extent to which the market is saturated with competitors to prevent distortion of competition in the industry.
- When preparing the local file for transfer pricing purposes, the taxpayer can rely on their core economic activity to identify comparable independent companies and define an arm's length range accurately.
- When preparing the master file for transfer pricing purposes, the taxpayer mitigates the risk of analysing the wrong industry.
- When it comes to controlled and uncontrolled lending transactions, the taxpayer presents transparent output data to determine their credit rating.
- The taxpayer provides the SRS with true information to be used in developing the new rating system for grading taxpayers according to their tax compliance, which will be officially announced in the ratings section of the SRS public database in March 2024.
- The taxpayer improves their reputation in the eyes of tax inspectors and increases the likelihood of being awarded a more targeted basket of services and advantages (partial or

complete cancellation of control measures, priority handling of tax ruling requests, simplification of customs procedures etc.)

Deadlines and steps to take

Section 15(1)(15) of the Taxes and Duties Act requires taxpayers to provide the SRS Electronic Declaration System (EDS) by 1 May with information on their core economic activity in the previous tax year if it has changed and the information given earlier is no longer true. We emphasise that the declared core economic activity must show that the taxpayer belongs to a particular industry and line of business.

New companies have to file information within a month after registering their economic activity at the Enterprise Registry or the SRS. If their core economic activity changes, it can be replaced with another in the next tax year. The law does not mandate disclosure of additional economic activities and this information can be volunteered during the tax year without restriction.

To provide information, the appropriate NACE code should be selected from the relevant code classifier. The diversity of available codes can sometimes make it difficult to get to the right code, so we recommend moving step by step:

- Identify the industry you are operating in (e.g. H: Transportation and storage).
- Choose your specialty area within your industry (e.g. 49. Land transport and transport via pipelines).
- Define the functions and activities that generate the most revenue (e.g. 49.4 Freight transport by road and removal services).
- Describe the main product or service you are supplying (e.g. carriage of furniture by road) and get to the end code (e.g. 49.42 Removal services).

As you work with the classifier, you are advised to pay attention to certain features that will make it easier to determine the most appropriate core economic activity:

- Each code contains a more detailed annotation listing possible economic activities.
- Descriptions include economic activities that do not fall into the particular category, and contain references concerning the most appropriate class.
- If you are working online, use the built-in search option, which allows you to find the necessary code by using keywords.
- Download the full classifier in one of the available formats (csv, xlsx, xml) to get a more detailed view.
- If your core economic activity is sufficiently specific, consider registering individual services that are not elsewhere classified under Category S: Other services.
- Follow the best industry practice and study the NACE codes of your competitors to secure comparability with the market conditions and to even out the industry sentiment.

The core economic activity you have selected should be notified in the EDS section "Documents à From Form à Taxpayer Registration and Data Change Forms à Statement of Taxpayer's Core Economic Activity".

Migrating to NACE 2.1

There are plans to migrate to NACE 2.1 on 1 January 2025. The new version is needed to reflect technological advances (e.g. there will be separate codes for companies that offer 3D printing and similar

laser technology related solutions, cloud infrastructures and search engine services) and to incorporate changes in environmental policies (e.g. electricity producers will be further classified by type of energy source – renewable or non-renewable).

Changes will affect the classification of retailers. Retail in specialised shops is currently separated from retail over the internet. The difference between the two types of sales will be eliminated because retail services are often rendered simultaneously in shops and online and it's difficult to accurately determine the proportion of retail in total transactions. This is why in future the primary criterion for classifying sales services will be the type of goods sold, not the sales channel. This means that physical goods will be organically separated from the ever-growing sales of digital products.

There are plans to set up a new class "Provision of logistics services" and define the place of fintech companies in the classification according to the principle of added value (financial intermediaries or digital technology service providers). The definition and classification of intermediary services will be revised to provide that these services can also be rendered digitally, and income may include other sources of profit, such as income from advertising.

For more details we encourage you to study the proposed structure of NACE 2.1 with explanatory notes on the Central Statistical Office's website.