

2011 Tax law changes

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Personal income tax and social security

Attila Arányi, Manager

Topics

I. Personal income tax

- Tax rate and tax base
- Tax credits
- Benefits provided in kind
- Marketing activities related benefits
- Private income
- Administrative obligations

II. Social security

III. Changes impacting expatriates

- Personal income tax
- Social security rules

Personal income tax



Personal income tax

Tax rate and tax base

- Unified 16% personal income tax rate applicable both to
 - income in the consolidated tax base (e.g. employment income) and
 - private income (e.g. dividends, interest income, etc.)
- The tax base increasing item (27%) added to the gross income to form the consolidated tax base would remain in effect in 2011
 - To be reduced to 13.5% in 2012
 - To be abolished as of 1 January 2013
- Non-taxable emolument concept is abolished (for abolishing the progression in the tax rates)

Personal income tax

Tax rate and tax base

- Broader tax base, e.g.
 - Certain benefits provided in kind not listed as taxable at the provider's side
- Rental income cannot be taxed separately
- The concept of earnings typical of an activity and related regulations is abolished – retroactively for 2010 in personal income tax

Personal income tax

Tax credits

Family tax allowance:

- Tax base reducing item
- The tax base to be reduced is the income increased with the tax base increasing item (27%)
- Amount of the allowance:
 - Families with one or two children: HUF 62,500 per child monthly (effective tax allowance HUF 10,000 per child per month)
 - Families with three or more children: HUF 206,250 per child monthly (effective tax allowance HUF 33,000 per child per month)

Wage tax credit:

- Calculated tax reducing item
- The monthly applicable wage tax credit will be reduced to maximum HUF 12,100, up to HUF 2,750,000 annual income adjusted with the tax base increasing item (12%, HUF 3,960,000)

Personal income tax

Net income without family allowance

Year	Monthly cash benefit	
	2010	2011
Gross income (HUF)	260,000	260,000
Personal income tax and social security	17%	17.5%
	21.59%	20.32%
Sum of employee charges	38.59%	37.82%
Net income considering the applicable wage tax credit (HUF)	167,022	161,688

Personal income tax

Tax base considering family allowance

	Without a child	With one child	With three children
Annual gross income (HUF)	1,500,000	1,500,000	1,500,000
Consolidated tax base (HUF)	1,905,000	1,905,000	1,905,000
Family allowance/month	0	62,500	618,750
Tax base considering family allowance (HUF)	1,905,000	1,155,000	0

Personal income tax

Benefits provided in kind

- Consolidated tax base – 20.32% PIT, max. employee social security 17.5% and 28.5% employer social security
- Non-cash benefits – 19.04% (16%*1.19) PIT, 32.13% health tax [151]
 - Payable by disburser
- Non-wage benefits – 19.04% PIT [119.04]
 - Payable by employer
 - Specific definition for employer and employee
 - E.g. flexible schemes

Personal income tax

Non-cash/Non-wage benefits (examples)

	2010		2011	
	Personal income tax	Social security/Health tax	Personal income tax	Social security/Health tax
Holiday (vouchers) - min. wage	25%	-	19.04%	-
Meal vouchers (HUF 18,000/month)	25%	-	19.04%	-
Local travel passes	25%	-	19.04%	-
Recreation card (up to annual HUF 300,000)	-	-	19.04%	-
Internet usage (up to 5,000/month)	-	-	19.04%	-
Employer pension/health fund contribution (50% of min. wage)	25%	-	19.04%	-
Insurance fee (group insurance)	54%	28.5%	19.04%	32.13%
Telephone usage	54%	28.5%	19.04%	32.13%
•Benefits provided in an event, •Benefits provided to beneficiaries who could not be identified in person	-	-	19.04%	32.13%

Personal income tax

Private income

General:

- Unified 16% personal income tax rate
- No tax base increasing item

- Dividend
 - 14% health tax – capped at HUF 450,000
 - Not applicable to dividend from EEA listed share

- Interim rules:
 - Capital gain, Interest, Insurance

- Small payments and other - abolished

Personal income tax

Administrative obligations

- Tax declaration – NEW tax filing option in addition to
 - tax assessment with employer help,
 - self-assessment and
 - filing with the assistance of the tax authorities:
- Typically:
 - In case of non-independent income received from one employer
 - The applicable personal income tax is withheld
 - Tax difference under HUF 1,000
- Employer obliged to inform employee about this possibility
- Split of severance payments - abolished

Personal income tax

Issues to consider

- Personal income tax payment liabilities of high earners is significantly reduced
- Below approx. HUF 280,000 gross monthly income without family allowance, the net income decreases – could be compensated with approx. 5% rise of gross
- Benefit schemes should be reviewed in order to comply with the new rules and maximize tax benefits

Social security



Social security

Employer and employee charges

Employer charges 2011

Pension	Health care	Labour	Training	Sum
24%	2%	1%	1.5%	28.5%

Employee charges 2011

Pension*	Health care	Labour	Sum
10%	6%	1.5%	17.5%

Social security

- The definition of income constituting the contribution base would change.
 - Former benefits in kind
 - Business entertainment and business gifts
- No adjustments to contribution base
- The cap on the employee pension contribution is HUF 21,000/day (HUF 7,665,000 p.a.)
- Employer charges (27%) decreased to 20% for part-time employee returning after maternity leave

Social security

- 0.5% Employee social security contribution rate rise – smaller net income
- Earnings typical of an activity rules – abolished in 2011
 - Minimum wage
 - Amnesty in case of audits
- Income received from a non-employing entity with respect to an employment relationship with a Hungarian employer
 - Health tax instead of social security charges
 - Individual liability (but can be taken over by Hungarian employer tax free)
 - E.g. certain share related benefits
- Income from renting out of property – 14% health tax remains on excess above HUF 1M

Changes impacting expatriates



Changes impacting expatriates

Personal income tax

- Treaty exemption
- Deduction of taxes paid abroad
- Income from interest rate discount provided by a foreign entity – consolidated tax base
- Family tax allowance - extended applicability for individuals receiving child care benefits of any EEA member state
- Business trip related (meals and other) services – non-cash benefits
- Withholding tax on interest, royalties and service fees paid to non-resident individuals in the absence of a tax treaty – abolished
- Tax exemption with progression on EEA tax-free benefits abolished

Changes impacting expatriates

Social security rules

- Changes in the current social security procedural rules on reporting and filing obligations for a foreign employer
 - Employer should register
 - New rules for representation
- Two years exemption in case of third country nationals (e.g. US or Japanese expatriates)
 - 1 January 2012 – start of 2 year period
 - 3 years waiting period between 2 employments
- Health insurance contribution for eligible dependents is HUF 5,100/month

Changes impacting expatriates

Issues to consider:

- Family tax allowance could be applied in quarterly/monthly tax advance calculations for individuals with EEA child-care benefits
- Review contractual and compensation arrangements for inbound and outbound assignees
 - Assignment related and local benefits
- Social security health checks should also take place during 2011/2012 regarding third country national assignees – ensure maintenance or availability of exemption from Hungarian social security

2011 tax law changes, and changes of the rules of taxation and accounting

Tímea Zednik, Manager

Corporate Income Tax law changes



Corporate income tax – Change of the tax rate 2010

From 1 January 2010

- 19% applies to the total tax base (4% solidarity tax was abolished)

From 1 July 2010

- 10% applies to the tax base up to HUF 500 million
- 19% applies to the tax base exceeding HUF 500 million

Transitional rules for 2010

- Tax base should be divided pro rata based on the calendar-year days (181:184 proportion)
- For the period between 1 January 2010 and 30 June 2010
 - 19% applies to the total tax base (up to HUF 50 million preferential rate might be applied if all requirements for application are met)
- For the period between 1 July 2010 and 31 December 2010
 - 10% applies to the tax base up to HUF 250 million;
 - 19% applies to the tax base exceeding HUF 250 million.

Corporate income tax – amendments

As of 2010

Donation provided to the Hungarian Relief Fund

- 50% of the donation might be considered as a corporate income tax base decreasing item
- Deduction is also available for donation provided in 2010

Top-up payment obligation

- For taxpayers who had at least HUF 100 million sales revenue in the previous tax year (previously HUF 50 million)
- The amendment is applicable to the installment due after 16 December 2010
- Easing of administrative burden

Corporate income tax – amendments

As of 1 January 2011

Controlled foreign company

- Change of the tax rate test – the effective tax rate is reduced to 10%

Abolition of withholding tax

- Withholding tax for interest, royalty and service fee paid to non-resident companies is abolished

In-kind contribution of notified shares

- Capital gain recognized upon the in-kind contribution of notified shares can also be exempted

Transfer pricing methods

- New designated methods introduced
 - Transactional net margin method
 - Profit split method

Abolition of 75% rule

- 75% of foreign source interest income exemption is abolished

Proposed tax rate change as of 1 January 2013

- 10% tax rate applies to the total tax base

Local tax law changes



Local taxes – amendments

From 1 January 2011

Corporate Community Tax

- Previously based on average statistical number of employees (HUF 2000 / employee)
- Abolished as of 1 January 2011

Building Tax

- Increasing tax rates (to 1100 HUF/m² or to 3,6% of the adjusted market value)
- Amended definition for net floor space

Local business tax – amendments

From 1 January 2011

Mitigate administrative burden

- The range of temporary business activities would be more limited

Change of the methods for splitting the tax base

- Certain part of the tax base is to be allocated to the municipality where the taxpayer has its registered office
 - On the basis of 10% of the personnel expenses accounted for relating to the managing director

Companies in the construction industry

- New definition for company performing construction activity
- New method for the division of the tax base

Companies performing construction, exploration or research of natural resources

- Registration obligation for temporary business activities after the 30th day
- Activity exceeding 180 days
 - registration of permanent business activity;
 - tax paid on temporary business activities can be deducted subsequently

Changes of Value Added Tax law



Value Added Tax – amendments

From 1 January 2011

Introduction of Cost Sharing Association rules (CSA)

- Based on EU rules
- Services provided by the CSA to its members are exempt from VAT
- Conditions
 - Service has to be provided due to mutual interest
 - Member has to use the service for exempt activity
 - Counter value can not exceed costs of service provided
- Planning opportunity for those
 - Who are providing exempt services and therefore the VAT deduction is limited
 - Cross border services
- Together with existing rules on VAT grouping, provides planning opportunities

Value Added Tax – amendments

From 1 January 2011

Changes in the place of supply

- Scientific, educational, cultural, entertainment, artistic and sport activities (except for sales of tickets for these events)
 - If the customer is a taxable person: the customer's place of business
 - If the customer is not a taxable person: the place where the service is actually provided
 - Sales of tickets for these events: the actual venue of the event

- Sales of heating or cooling energy through network or sales of gas through network located in the EU or any other network connected to such network:
 - if the recipient is a taxable energy trader then the customer's place of business
 - if the recipient is not a taxable energy trader, then where it consumes the energy supplied, or in lack of the latter, the customer's place of business

Value Added Tax – amendments

From 1 January 2011

Changes in correcting of invoices

- The tax base can be decreased at the issuer of the invoice without self-revision if:
 - the transactions fail in case of closed-end-lease, supply with installments, rental services, transfer of rights
 - the tax base of a VAT exempt supply is decreased due to any reason as set forth in Section 77

New exemptions related to the supply of goods and to the importation of goods

- import of heating or cooling energy through a network
- import of natural gas through pipelines or tankers
- supply of certain goods or services to EU, the organizations of the EU, or to other international organization or to any employees of these organizations are exempt with the right of VAT deduction
- import of goods in line with the above conditions

Value Added Tax – amendments

From 1 January 2011

Further goods subject to the reduced 5% VAT rate

- Electronic scientific journals, digital books and audio books

Further activities subject to reverse charge mechanism

- Any service provided the market value of which is at least 100.000 HUF at the time of supply by a taxable person being under an insolvency procedure
- CO₂ quota sales
- Sale of used batteries

VAT refund for foreigners

- Exceptionally, the VAT refund request of taxable persons registered in other Member States for the 2009 tax year can be submitted until 31 March 2011

Changes of the Rules of Taxation



Rules of taxation – amendments

From 1 January 2011

Self-revision

- Rules relating to tax authority audits become stricter
 - self-revision is valid only in case it is filed with the tax authority before a tax authority audit commences or the engagement letter is handed over

Assessment of transfer tax

- The administrative deadline for levying transfer tax on acquisition of properties is 60 days

Special surtaxes



Tax on financial institutions – amendments

From 1 January 2011

Special tax on financial institutions

- No changes relating to tax base
- For credit institutions, the special tax rate applicable on a tax base exceeding HUF 50 billion is increased from 0.5% to 0.53%
- bracketed tax system applies to insurance companies
 - the special tax rates for insurance companies are 1.5%, 3% and 6.4% on a tax base of HUF 1 billion, HUF 8 billion and above HUF 8 billion
- Deadline for filing the tax return is 10 March 2011
- Payment in 4 equal installments – by the 10th day of the last month of the quarter (i.e. by 10th March, 10th June, 10th September, and 10th December)

Tax on credit institutions – new

From 1 January 2011

Special tax on credit institutions

- Credit institutions that earn sufficient profits account for this tax on their after-tax profit instead of the special tax on financial institutions
- May be deducted from the special tax on financial institutions
- Tax base: pre-tax profit (increased by the special tax on financial institutions)
- Tax rate: 30%
- No extra burden – the amount may not exceed the amount of special tax on financial institutions

Special taxes

From 2010

Sector-related special tax

- **Taxpayers**

- Companies performing store retail activity;
- Companies performing telecommunication activity;
- Energy suppliers under the provisions of „Robin Hood” tax Act and public utility suppliers – if min 5% of their sales revenue derives from these activities

- **Tax base for the year 2010:**

- The taxpayer’s net sales revenue for 2010 that derived from the above mentioned activities (tax advance of 2010 should be assessed and paid until 20 December 2010) – the aggregated amount of net sales revenue of related parties are to be taken into account
- In case more activities are performed by the taxpayer: tax should be paid on the activity which results in a higher tax liability

Special taxes

From 2010

Sector-related special tax

- **The tax base:**

- Store retail activity:

- 0% - for the tax base up to HUF 500 million,
- 0,1% - for the tax base exceeding HUF 500 million,
- 0,4 % - for the tax base exceeding HUF 30 billion,
- 2,5 % - for the tax base exceeding HUF 100 billion.

- Telecommunications activity:

- 0% - for the tax base up to HUF 500 million,
- 4,5 % - for the tax base exceeding HUF 500 million,
- 6,5 % - for the tax base exceeding HUF 5 billion.

- Energy suppliers:

- 0,3% - for tax base up to HUF 5 billion
- 1,05 % - for the tax base exceeding HUF 5 billion

Energy tax, „Robin Hood” tax



Energy tax and „Robin Hood” tax – amendments

From 1 January 2011

Energy tax

- Clarifications – harmonization with the provisions of Directive 2003/96/EC

„Robin Hood” tax

- Tax levied on energy suppliers will remain in force after 1 January 2011

Changes of the Act on Duties



Act on Duties – amendments

From 1 January 2011

Amended exemption rules

– Transfer tax

- Real estate or shares in a company holding Hungarian real estate via preferential asset transfer (according to the Corporate Income Tax Act) is exempted from transfer tax based on amended conditions

Changes of the Accounting Act



Changes of the Accounting Act

From 1 January 2011

Unrealized FX difference

- Companies must carry out a revaluation to HUF value of their FX-denominated assets, receivables, and liabilities and recognize any unrealized exchange rate difference at the balance sheet date regardless of their internal accounting policies.

FX-denominated shares, participations and debentures

- the elimination of the effects of exchange rate fluctuations on capital gains is abolished

Irrecoverable debts

- includes warrants for payment processes that ultimately create or increase losses

Transformation

- raising funds for tax liabilities arising directly from a company transformation within tied-up reserves if no funds are otherwise available is repealed.

Reorganization of the Hungarian tax authorities



Reorganization of the tax authorities

From 1 January 2011

Reorganization of the tax authorities

- Tax and Financial Control Administration (APEH) and the Hungarian Customs and Finance Guard have merged into a newly established agency, the National Tax and Customs Office
- Two departments are established within the new agency
 - Tax department that functions as the tax authority
 - Customs department that functions as the customs authority

Thank you for
your attention!

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