

Tax Changes in 2015

This summary is intended to draw your attention to the most important taxation changes in 2015. The list is non-exhaustive.

Please contact us with any questions should you need more detailed information.

Personal Income Tax

The **tax base allowance for first time married couples** is introduced, pursuant to which a tax base allowance of 31,250 HUF can be claimed by each couple for a period of 24 months from the month following the marriage, but for a maximum of until eligibility for family tax allowance opens, if at least one of the parties contracts his/her first marriage.

Family tax base allowance: The amount of the allowance available on 2 children will rise to double the present level over 4 years from 2016.

A posting order may be kept electronically as well if it complies with the provisions of the legal regulation on digital archiving, that is, the posting order is an electronically generated certificate that is managed and stored in a closed system and contains the mandatory content elements.

It remains an objective to encourage savings for retirement purposes. The concept of **pension insurance** has been clarified. Accordingly, a pension insurance is a form of life insurance, in which the insured person is eligible for the service of the insurer throughout the term of the pension insurance, with the exception of the services to be provided in case of death.

The rules for **accruing losses** by private entrepreneurs and agricultural primary producers become stricter.

The conditions for giving **cafeteria** also change: the annual framework amount is reduced from 500,000 HUF to 450,000 HUF and, above the annual threshold of 200,000 HUF, only the SZÉP card benefit may be given subject to the previously imposed tax burden. In case the employment does not last all year, the framework amount must be made proportionate, except where the employment terminates due to the employee's death.

The range of **tax-free housing allowances** is extended as the allowance may be given for accessibility purposes.

Social Security

Contribution base

It is a change from January 01, 2015, that in the absence of income considered for the calculation of the tax advance base, the **contribution base** will be

- the basic salary as defined in the employment contract,
- or, if the work is not carried out under employment, but rather another legal relationship regarding work, the fee specified in the contract.

Insurance obligation

The insurance does not cover non-resident performing artists.

The exemption extends to the employees of non-registered foreign employers employed in Hungary under posting, so the insurance obligation starts no earlier than on July 01, 2013 rather than January 01, 2013.

Family contribution benefit

- it must be provided not only by the employer, but also by other paying entities that pay a regular income
- when the annual accounts are made, the difference must be settled in the form of personal income tax rather than contribution

Monthly contribution of non-insured persons

To cover the in-kind health insurance benefits, persons who are not eligible for health services as insured persons or under other legal title must pay a health service contribution of **6,930 HUF a month (231 HUF a day)**.

Social Contribution Tax

The START benefits are stopped, but can be applied for retroactive payments if the conditions are met.

Of the existing discounts, the social contribution tax benefit for parents with small children may be claimed in the total amount (up to a salary of 100,000 HUF gross) if the worker is employed on a part-time basis (no need to make it proportionate).

In case of parents raising three or more children, part-time employment must be ensured, upon request, for 5 years instead of 3 years.

Health Contribution

So far, one of the "ground rules" of health contribution payment was that the obligation to pay the contribution applied only for income paid to or received by resident private persons under the Social Security Services Act.

However, pursuant to the new provisions, the paying entity must pay a 14 percent health contribution on the income paid to non-resident private persons.

Non-resident performing artists pay a 14 percent health contribution on their income, but the ceiling of the contribution is 450,000 HUF per tax year.

Taxation Act

Contribution of expatriates

It is a new regulation that if a private person credibly proves himself be resident outside the territory of Hungary and is covered by the health insurance system according to the legislation of the country where he/she is staying, then he/she has the option to cancel his/her health service contributions paid in Hungary.

Reporting obligation

Under the new rules, non-resident taxable persons need not register in Hungary insofar as their activities in Hungary involve only EU tax-free sales from a VAT warehouse. However, this rule can be applied only if the warehouse operator reports the sale of goods to the authority.

The income of private persons **resident in other EU Member States** (honorarium, payment under life insurance, payment under property rent) must also **be reported** by the 12th of the month following the given month.

*The Electronic Road
Haulage Control System
(KÖZÜTI
ÁRUFORGALOM
ELLENŐRZŐ
RENDSZERT (EKAER))*

The accountants' work will be made more difficult by the provision that all purchases/sales must be reported by the invoice, if the VAT content of the invoice (either separately or collectively from the given supplier in the tax declaration period) **is more than 1 million Forints** (previously the threshold was 2 million Forints).

An important change concerning the reporting obligations is that, in future, **newly established companies** must account VAT to the tax authority on a monthly basis in the year of establishment and the subsequent year. Previously, newly formed companies had to do this on a quarterly basis.

As a result, any vehicle (trucks with a weight over 3.5 t) subject to road toll carrying goods on public roads

- from EU member states to the territory of Hungary for the purpose of the procurement of goods or for any other import purpose
- from the territory of Hungary to EU member states to for the purpose of the sale of goods or for any other export purpose
- for the purpose of the FIRST taxable sale of goods to NON-end users on the domestic market

will **need to apply for an EKAER number**.

The requested EKAER number must be provided to the carrier. If the carrier does not have an EKAER number at the time of carriage, 40% of the net value of the goods may be imposed as a penalty. *The tax authority will apply the penalties as of 1 February 2015.*

Entities subject to reporting:

- In case of carriage from the EU to Hungary: the addressee (recipient) should apply for the EKAER number and report the time of arrival
- In case of carriage from Hungary to the EU: the sender should apply for the EKAER number and report the time of loading
- In case of not a first sale to non-end users within Hungary: the sender should apply for the EKAER number, and the arrival of the goods should be reported by the recipient

Handling of **risky goods** fall under stricter regulation. These should be reported even if they are carried by vehicles with less than 3.5 t in weight:

- For risky foods, if the carried weight is 200 kg or its value exceeds HUF 250 thousand
- For other risky goods, if the carried weight is 500 kg or its value exceeds HUF 1 million

The taxpayer must pay a risk guarantee.

Until the guarantee reaches the above amount, the tax authority will not issue a new EKAER number.

Corporate Tax

Loss accrual

The possibility to account accrued loss for an indefinite time has changed. From 1 January 2015, the Corporate Tax Act limits the period available for accruing the loss to 5 tax years.

It is a transitional rule for loss accrual that the loss generated up to December 31, 2014 may be taken into account for the last time in the tax year including December 31, 2025.

Determination of the minimum income (profit) base

In determining the minimum income (profit) base, the cost of goods sold and

the value of mediated services sold cannot be deducted from the total income. The possibility remains for companies to make a declaration in case they need to choose on the basis of the proportion of their pre-tax profit and tax base, and the income (profit) minimum.

The support provided under a **higher education support** agreement is added to the scope of benefits of the corporate tax base.

From 1 January 2015, **affiliated companies** include the taxpayer and any resident or non-resident person as well if, due to the person of the managing director, there is a controlling interest between the taxpayer and the other person.

The method for calculating the **local business tax** remains unchanged in respect of affiliated companies, but, in 2015, the local business tax base of affiliates must be taken into account only in the amount for the duration in which they are considered affiliates.

Municipalities have the opportunity to introduce a new tax type, that is, **the municipal tax** (Local Tax Act Section 1/A). Only private persons may be subject to this tax type. A further limitation is that the subject of the tax may not be the subject of any other Act.

Environmental Product Tax

The most significant change is that new products are added to the products subject to the environmental product tax. Among others, the following products will be taxable: office paper (only for end use), plastic products, chemical products (soap, laundry detergent, body lotion, shower gel, deodorant, etc.). The scope of already taxable electronic products is extended with effect from 1 January. In addition, the level of tax rates for the products will also increase.

Assumption

An assumption contract must be notified to the NAV within 15 days. It is not possible to make an assumption contract retroactively, as it cannot be notified.

Value-Added Tax

Periodically accounted transactions

If the parties agree on periodic accounts in the course of the sale of goods or services, as a rule, the tax liability arises on the last day of the period covered by the accounting in accordance with the EU directive.

As an exception from the general rule, the performance will be:

- on the invoice date if the invoice is issued, or the payment date is, before the end of the period,
- the payment date, but no more than 30 days from the end of the period, if the payment date is after the end of the period,

From July 01, 2015, in the case of tax advisory, accounting and auditing services,

From January 01, 2016, for all other periodically accounted transactions.

Itemised summary report

Resident taxpayers are required to prepare an itemised summary report about all invoices whose VAT content reaches 1 million HUF. Therefore, the buyer's tax number must be stated on these invoices.

Reverse taxation

The rules on reverse taxation apply to the sale of certain iron and steel products, temporary agency work, secondment of workforce and the use of the services of school cooperatives.

Reverse taxation is extended to construction contracts as well. If a taxpayer who is not based in Hungary for economic purposes transfers a real property to be entered into the land register to a taxpayer registered in Hungary, the tax encumbering the sale will be paid by the party acquiring the real property.

Tax-free sale of residential property

Until February 28, 2015, a taxpayer may change his declaration by which he chose tax liability for the sale of all his property in a manner that he chooses tax liability only with respect to the sale of property that is not considered as residential property.

Advertising Tax

Essential information:

- Taxpayers listed in the register of advertisement publishers kept by the tax authority are exempted from the obligation to make or obtain declaration.
- Publication of advertisements is understood to include any contract, regardless of whether the contract provides for the place, time and method of publishing.
- From 1 January 2015, the tax rate increases from 40% to 50% for a tax base of over 20 billion HUF.
- As regards affiliated companies where the relationship did not exist for the whole year, only the time proportionate with the affiliated relationship is to be considered when aggregating the tax base.

Accounting

Financial leasing

In regards to accounting, financial leasing does not mean the term defined in the Civil Code, but rather the term according to the Act on loan institutions and financial enterprises. This rule applies to 2014 as well.

Confirmation of equity

If the company is required to prepare interim accounts, it may use the option that the last accounts are suitable to confirm the equity, even several times, for a period of six months after the balance sheet reference, taking into account any capital decrease carried out in the meantime.

Valuation of foreign currency accruals

Receivable-type prepayments and accrued income in foreign currencies and liability-type accruals and deferred income should be recognised at the converted Forint value by using the foreign exchange rates on the balance sheet date of the financial year. This rule applies to 2014 as well.

Increasing the capital reserve with premium

Transferring capital to the capital reserve cannot be construed as a separate economic event, and can take place only if the registered capital is simultaneously increased and the assets transferred to the capital reserve are taken into account as "premium".

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