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# News Flash

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**Tax changes in 2016 in Hungary**

## Tax changes 2016

As at start of every year, the tax law changes were of special interest also in 2016. Our summary presents the most important tax changes including the newly approved ones. Please note that the list is non-exhaustive.

### Rules of Taxation

#### Qualification of taxpayer

The Hungarian tax authority qualifies the taxpayers quarterly starting from the first quarter of 2016 into two categories. Accordingly, taxpayers may be considered as reliable or risky. Reliable taxpayers will receive benefits, while risky taxpayers will fall under stricter rules compared to “normal” taxpayers not meeting the conditions of the above-mentioned categories.

The tax authority will inform the taxpayer about the result of the certification at the first time by 30 April 2016. Should the taxpayer’s classification not change during the latter qualifications, the taxpayer will not receive another notice. Taxpayers have the possibility to challenge the classification if they do not agree with the result.

#### *Reliable taxpayer*

In order to be qualified as reliable taxpayer strict conditions are to be met (e.g. the taxpayer continuously operates for more than 3 years; there was no enforcement proceeding started by the tax authority against the taxpayer in the current year and in the previous 5 years; the taxpayer is not under liquidation, bankruptcy and forced cancellation process in the current year and was not during the previous 5 years; the taxpayer has no tax debt exceeding HUF 500 thousand and the tax authority has not established tax shortage exceeding 3% of the taxpayer’s tax liability in the current and the preceding 5 tax years etc.).

Taxpayers, who are qualified as reliable taxpayers, are entitled to certain benefits, e.g. maximizing the tax inspection period in 180 days or receiving moderate default penalty and tax fine (50% lower compared to the general rules) or receiving notification from the tax authority

without default penalty in case of late or wrong tax filing etc.

#### *Risky taxpayer*

Should the taxpayer be considered as risky taxpayer according to the criteria of the tax authority (e.g. the company is on the list of taxpayers with large amount of tax shortage or tax debt or taxpayers employing unregistered employees etc.), stricter rules are to be applied in connection with VAT refund (the deadline cannot be shorter than 75 days) and tax inspections (the deadline is extended by 60 days compared to general rules), the default penalty, tax fine and late payment interest is significantly higher etc.

#### Tax registration procedure

From 2016, the rules of registration procedure became stricter again. The main changes are as follows.

The threshold of the investigated tax debt decreased from HUF 15 million to HUF 5 million, in case of large taxpayers from HUF 30 million to HUF 10 million during the tax registration procedure.

The previously 180 days observation period of continuous tax debt changed to 360 days.

The group of examined persons is extended from 2016: not only executive officers, members or shareholders, but also company directors may be investigated. Furthermore, in case of limited liability companies and private limited liability companies the investigation may also be extended to all members, if there is no member who is entitled to more than 50% of the votes or has qualified majority control.

According to the above, if the taxpayer has on the day of claiming the tax number a member, a shareholders an executive officer or a company director, who has HUF 5 million, in case of large taxpayers HUF 10 million tax debt during a

continuous period of 180 days, the tax authority denies the creation of the tax number, provided that the concerned person had managing director, CEO, member or shareholders legal status in any other taxpayer on the 360<sup>th</sup> day or the following days prior to the 180<sup>th</sup> day before the tax debt.

A new disqualifying reason is if the examined person is prohibited from the managing director's position or the given tasks.

### **Integrated tax current account**

From 1 January 2016 the integration of the tax and duty current account was realized. As a result, the taxpayer receives information in one place about the balance of the tax burdens. This implies that the current account should be kept not per tax types, but for each public burdens starting from 2016. The transfer of overpayment will be more flexible, the overpayments of the different tax types may also be transferred to other tax burdens.

Contrary to the previous practice, from 2016 the taxpayer will only receive balance statement in case the debt or overpayment of the current account reaches HUF 2000 (previously the limit was HUF 1000).

The tax current accounts at the local governments are not concerned with the above mentioned change. The tax current account of local taxes is to be treated as a separate tax current account in the future as well.

### **Tax inspection**

If the taxpayer who is not obliged to register at the Registry Court (e.g. individuals, private entrepreneurs), fulfills its obligation of cooperation, then the period of the subsequently examination can not exceed 180 days.

Another change is in connection with the Electronic Road Control System (EKAER). If the tax authority does not make any conclusion during the inspection of the person performing the road transport, it is not obliged to prepare minutes.

Furthermore, from 2016 only at risky taxpayers is the tax inspection mandatory in the event of liquidation.

### **Payment relief**

The limit of the allowance free part payment is HUF 200 thousand since 1 January 2016. Till the end of 2015 the allowance free part payment could be requested up to the limit HUF 150 thousand.

### **Default penalty**

The tax authority is not allowed to levy default penalty immediately to those taxpayers, who are not obliged to register at the Registry Court (e.g. individuals, private entrepreneurs), if they failed to comply their notification, filing or reporting obligation. Before the tax authority levies the default penalty, firstly it has to request the taxpayer to fulfill the missing liability without imposing default penalty. Should the taxpayer continue not to perform the failed obligations, the tax authority is entitled to levy the default penalty.

This relief does not apply in case of missing the general registration, the registration of the employee and the EKAER related registration.

The maximum amount of default penalty is HUF 200 thousand in case of individuals, while the default penalty levied to other taxpayers is maximized in HUF 500 thousand.

### **Wealth gain investigation**

The tax authority is entitled to apply the method of estimation during a wealth gain investigation only in case of suspicion caused by following crimes: crimes against property, crime against money and stamps traffic safety, crime damaging budget, crime of money laundering and management offenses.

### **Surveillance measures**

From 2016, the minister responsible for tax policy and the minister appointed to supervise the tax authority are only entitled to do surveillance measures ex officio and not upon the request of taxpayers. Thus, due to this change, taxpayers will have less forum for legal remedy. If the resolution of the tax authority has been revised by the court, then the minister can not act ex officio.

## Personal income tax

### The tax rate

The personal income tax rate decreased from 16% to 15% from 1st January 2016.

### Family allowance

According to the current plans, the amount of family allowance available in case of two children doubles between 2016 and 2019 in four equal installments. The amount of available allowance increases in terms of the tax amount by HUF 2500 per month per children in 2016. This means HUF 12.500 tax allowance per month per children in 2016.

### Corrections in connection with the change of the tax rate

The available **family allowance** in 2016 is:

- HUF 66.670 in case of one dependant
- HUF 83.330 in case of two dependants
- HUF 220.000 in case of three and each additional dependants.

In order to the amount of the **first married couple allowance** expressed in tax still remains HUF 5000 at the recipient, the deductible amount of entitlement month increased from HUF 31.250 to HUF 33.335.

### Change of other multiplier

In case of the benefits given not in cash based on maintenance contract undertaken by the employer, the interest discount and the non-cash prizes from lottery game, gift lottery, the multiplier of the tax base decreases from 1,19 to 1,18 due to the change of the tax rate.

For interest income the multiplier of 1,18 is to be used, except if the income is subject to health contribution. In this case multiplier 1,27 is to be used instead of the previously used 1,28.

The multiplier concerning to fringe benefits and certain specified benefits remains the same. When determining the tax base, multiplier of 1,19 is to be used.

### Statement for personal income tax return

If the private person earned income exclusively from employer (excluding interest income)

during the year, does not account any costs, except the 10% cost ratio, does not enforce tax base or tax allowance and does not dispose of tax – except the 1% - then he is entitled to make the statement for personal income tax return to its employer or to the tax authority. Private persons, who earned income from lease of real estate can not choose the statement for personal income tax return. According to the statement for personal income tax return the tax authority determines the tax liability until 20<sup>th</sup> May based on the monthly tax and contribution declarations submitted by the employers. The tax authority informs the private person in a resolution only in case the tax deducted during the year and the final tax liability differs.

### Draft on tax declaration

The tax authority will prepare the draft on tax declaration of the private individual for the first time in 2017 including the incomes of 2016 – without the request of the private individual – based on available data. The draft become final and considers as the tax declaration, if the private person accepts it on a verifiable way. The tax authority prepares the draft on tax declaration for those individuals, who did not request for tax determining by the employer (or the employer refused it), or did not make statement for personal income tax return. A further criterion is that the private individual has access to Ügyfélkapu, or electronic access created specifically for this purpose.

### Simplified tax declaration, tax statement

The simplified tax declaration and the tax statement cease to exist. They can be submitted last time for the incomes gained during 2015.

### Compensation received due to the liquidation of the financial institute

If the payment liability of the private individual ceases due to the liquidation of the financial institute, it does not consider as taxable income. As well as the received amount in connection with the settlement of claims in respect of compensation, does not have any income tax impact.



## Social security

### Family allowance

Due to the decrease of the personal income tax rate, the family allowance changes also to 15%. The contribution allowance may be utilized to the amount equivalent to the 15% of the family allowance, but it can be taken into account maximum up to the total amount of the payable contributions.

### Health care contribution

If the individual has no legal relationship conferring insured status, he/she has health care contribution payment liability. The amount of the health care contribution increases from the previous HUF 6.930 (HUF 231 / day) to HUF 7.050 (HUF 235 / day) from 2016.

### School cooperative employment

There is no individual contribution payment liability, so there is no insurance liability even if the student status is suspended during the employment period. Criterion of application of this rule is that student has not reached the age of 25.

## Social contribution

### Allowances

The relationship between the student cooperation and the student does not consider as relationship resulting tax liability form 19 June 2015 if the student suspends its student relationship and has not reached the age of 25.

The job protection action was extended to the agricultural employment relationship. The allowance concerns to employees over the age of 25 and under the age of 55, employed in agricultural jobs. Within the framework of the allowance the employer is required to pay 14.5% social contribution instead of 27%, for the wage part under HUF 100 thousand.

## Corporate income tax

### Termination of extraordinary items

Several points of the Act on Accounting were changed due to the Hungarian implementation of the IFRS. In order to create a consistency

with the modified accounting act, the category of extraordinary items is terminated. In accordance with this change, without the modification of content, the definition of the total revenue, the rules of tax loss carry forward and the temporary regulations related to the forgiven dividend were clarified.

### Refund of penalty and other sanctions

As new tax base modifying item, from 2016 the tax base may be decreased by the amount of revenue accounted due to refund of default penalty, self-revision penalty and late payment interest during the tax year.

### Growth tax credit

If the part of the taxpayer's current year's profit before taxation which exceeds the previous year's profit before taxation reaches or exceeds the previous year's profit before taxation in absolute terms five times, the taxpayer is entitled to pay the tax part of the growth tax credit within 2 years following the financial year in eight equal parts. In case of beneficiary investment the parts even not become payable can be reduced. For details on this topic please [see our previous newsletter](#).

### Disposition of tax

It is a new form of subsidization, which can be offered to performing art organizations, film production and team sports. Within the framework of the disposition of tax the taxpayer can offer 50% of the paid tax advances and top-up, but maximum 80% of the annual tax liability to the chosen organization. The tax authority transfers the amount offered to the beneficiary within 15 days following the deadline for submission the advance return. This type of subsidization causes tax advantage to the taxpayer, because the specified part of the amount offered will be credited on the taxpayer's tax current account on the first day of the second month following the deadline for submission the annual tax declaration. Accordingly in case of taxpayers chosen a financial year corresponding to the calendar one, the credited amount will appear on the tax current account on 1 July 2016.

### **Tax allowance of team sport support**

The taxpayer given support to team sports has to announce the fact of payment of the basic support and additional sport development support to the tax authority within 30 days following the payment and this is not a term of preclusion. (Previously the deadline for announcement was 8 days and it was a term of preclusion.)

According to the transitional provision the law determines that based on the request submitted to the tax authority until deadline of corporate income tax declaration is exempt from the legal consequences of the 8 days limitation period.

### **Advertising fee as acknowledged cost**

Advertising costs under HUF 30 million may be considered as acknowledged cost even if the corporate income taxpayer is not in possession of the statement issued by the publisher of the advertisement which approves that the publisher fulfills the advertisement tax concerning to the disclosure of the advertisement or that he is not obliged to pay the advertisement tax. (In the framework of self-revision, this rule may be applied for financial year starting in 2014 as well.)

## **Value-Added Tax**

### **Periodically settled transactions**

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

As exceptions from the general rule, the date of performance will be:

- on the invoice date if the invoice is issued and the due date of payment is before the end of the settlement period,
- the due date of payment, if the payment date is after the end of the period but earlier than the 60<sup>th</sup> day from the end of the period,
- on the 60<sup>th</sup> day from the end of the settlement period, if the due date of payment is later than this date.

### **New VAT rate related to the sale of new real estate**

Starting from 1 January 2016, the VAT rate of 5% instead of 27% is applicable for the sale of new real estate. Properties qualify as new if the first intended use has not happened yet, or it has been already happened but 2 years has not elapsed between the sale of the real estate and issue of the occupancy permit.

### **Validation of the deduction right**

The taxpayer will have the right to VAT deduction within 2 years from 2016. It has the right for tax deduction in the year of formation of the right and the following calendar year. However the right to deduction does not expire after 2 years, but after this deadline the right to deduction can be forced only via self-revision (within the expiration time), so the VAT declaration has to be modified, which the invoice originally belongs to.

In case of transactions under reverse charge mechanism, and VAT paid by self-assessment on imported goods, the input VAT can be deducted in the period in which the payable tax is determined.

### **Exemption from invoicing**

The international airlines performing passenger air transport are exempt from invoicing obligation, related to this service. In the future they should issue the invoice only in case the customer request for it.

Furthermore, taxpayers not registered in Hungary performing broadcasting, telecommunication or electronically performed service are also exempt from invoicing obligation, if they fulfill their VAT liability via the Mini One-Stop Shop (MOSS). They are obliged to issue the invoice if the customer request for it. The VAT in currency HUF is not mandatory part of the invoices issued by them in foreign currency.

### **Public donation**

The free transfer of goods and services to educational institutes is considered as public

donation from 1 January 2016, if the related conditions are fulfilled, and do not cause VAT payment liability.

### **New requirement on invoicing programs**

Programs, which are suitable for invoicing are to be extended by a new function, called [„adóhatósági ellenőrzési adatszolgáltatás”](#) (supplying data for tax revision), which is suitable for downloading data based on periodic and serial number ranges.

## **Local business tax**

### **IFRS in local business tax**

As a consequence of introducing the IFRS, separate definitions were determined in the local business tax law, related to the revenues and the deductible costs. Furthermore a temporary rule was introduced which created the definition of the minimum tax base and the minimum tax advance in the local business tax law. The temporary rule is to be applied for 2 years by taxpayers, who convert their bookkeeping according to the IFRS.

### **Local business tax allowances**

According to the tax law changes, the tax exemption and tax allowance which belongs to the entrepreneur, whose tax base does not reach HUF 2,5 million considers as small amount (de minimis) subsidy.

The local government is entitled to introduce tax allowance related to R&D activity, which makes possible to reduce the local business tax – already decreased by the 7,5% of toll – up to 10% of the accounted costs related to the R&D activity. The so accounted allowance is deductible up to the amount of tax payable, calculated based on the proportion of the total tax base and each municipal tax base.

### **Foreign toll**

Starting 1 January 2016, the taxpayer is entitled to decrease the tax base by the 7.5% of the **foreign toll and domestic toll accounted as cost**, expenditure.

## **Tax declaration in ÁNYK**

The local business tax declaration can be submitted electronically from 1 January 2017, through the tax authority's ÁNYK system, in addition to the paper-based declaration.

### **Local tax database**

The treasury will publish on its website the summarized tax rates to be used on the territory of each local municipality, utilized allowances and exemptions.

## **Car tax**

Environmentally sound cars will be exempt from car tax, company car tax and registration tax.

## **Advertisement tax**

The tax rate of the advertisement tax changed on 5 July 2015. According to the new rule, tax rate of 0% is to be applied up to HUF 100 million tax base, above this threshold 5.3% is to be used at the publisher of the advertisement.

The customer (who ordered the advertisement) has to use 5% tax rate in case of agreements signed after 5 July 2015.

The publisher, who prepares its financials according to the IFRS, the revenue considered as tax base of the advertisement tax is the same revenue as determined by the local business tax law.

## **Duty**

### **Loan contracts converted into HUF**

The forgiven exchange rate difference caused by conversion of loan agreements (not related to housing) into HUF is exempt from duty on gifts.

### **Payment of procedure fee**

The procedure fee can be paid also before start of the procedure by payment transfer from 2016, without request of the authority. The details for beneficiary field should include the case number, the name and address or seat address of the client.

### **Procedure fee exemption of reliable taxpayers**

The request sent by the reliable taxpayer on procedure on partial payment is exempt from procedure fee.

### **Procedure fee on Company Court**

If the applicant is the member or representative of the company, then there is no procedure fee payment liability for electronically sending of the certificate of incorporation, company certificate and for electronically document included in the commercial register.

### **Exemption from transfer tax**

The acquisition of the ownership and property rights of environmentally sound cars is exempt from transfer tax.

We hope You find our summary useful and we could help to understand the tax law changes of 2016. Should You be interested and would like to receive more information about this topic, please contact our experts with confidence.

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