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# News Flash

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TAX

**Favorable tax types for small  
companies in Hungary in 2016**

## Favorable tax systems for small companies in Hungary in 2016

The fixed-rate tax of low tax-bracket enterprises and the small business tax introduced in 2013 offers favorable tax options to the entities. In our current newsletter we will present basic rules of these taxation types and investigate the taxpayers who can choose them and review the conditions.

### KATA (Fixed-Rate Tax of Low Tax-Bracket Enterprises)

#### Who can apply for this?

The taxable persons can be:

- the self-employed;
- the sole trader;
- the limited partnerships with only individual members;
- the general partnerships with only individual members.

#### What are the conditions?

- During the preceding two years of the application of the KATA taxation, the VAT number of the taxpayer enterprise was not suspended by final decision or cancelled by the tax authority.
- The taxpayer did not earn any income as the 2008 NACE (Nomenclature of Economic Activities) 68.20: Renting and operating of own or leased real estate labeled activity.

#### Why is it beneficial?

This is one of the simplest taxation forms, because the fixed contribution redeems the corporate income tax, the personal income tax, the social contribution tax, the contribution to qualification fund, the health care contribution and the contributions to be paid by the individual.

The total monthly amount of this tax is:

- as a full time fixed-rate taxpayer its 50 thousand HUF (if the taxpayer would like to have a higher amount of social insurance, there is an option to choose a larger tax, in that case the monthly tax amount is 75 thousand HUF);

- as a non full time fixed-rate taxpayer it is 25 thousand HUF.

Please note that the fixed-rate tax of low tax-bracket enterprises does not replace the local business tax.

#### What are the risks, if any?

If the revenue gained by the fixed-rate tax of low tax-bracket enterprise from one partner and within a calendar year reaches 1 million HUF, both of the parties will have reporting obligation to the tax authority next year. The fixed-rate tax of low tax-bracket enterprise has to fulfill its reporting obligation until 25<sup>th</sup> February following the financial year, while its partner has to complete the reporting form until 31<sup>st</sup> March.

#### If there are limitations, what happens when companies go over limit?

If the income of the fixed-rate tax of low tax-bracket enterprise exceeds 6 million HUF in one calendar year, the amount beyond that limit has a 40% tax duty over the otherwise payable fixed monthly contribution.

### KIVA (Small Company Tax)

#### Who can apply for this?

The taxable persons could be:

- the sole trader;
- the general partnerships, the limited partnerships, the limited liability partnership, the private limited partnership;
- the cooperatives and the housing cooperatives;
- the forest management company;
- the executive office, the law office, the notary office, the patent attorneys' office;

- the foreign entrepreneur or foreign person with interior place of management.

#### **What are the conditions?**

- During the year before opt for this taxation type the average number of employee cannot exceed 25 (associated enterprises should be considered together).
- The revenue and the balance sheet total of the prior year does not exceed 500 million HUF (associated enterprises should be considered together).
- The balance sheet date is the 31st of December and the financials is prepared in HUF.
- During the preceding two years of the application of taxation according to KIVA, the VAT number of the taxpayer enterprise was not suspended by final decision or cancelled by the tax authority.

#### **Why is it beneficial?**

- This form of taxation is based on cash flow, accordingly the tax base of the company is the cash approach result.
- The tax rate is: 16%

By paying the small company tax, the entity will be exempt from following tax types:

- Corporate income tax (10%/19%)
- Social contribution tax (27%)
- Contribution to qualification fund (1,5%).

#### **What are the risks, if any?**

- This method requires complex accounting and legal knowledge.
- The cash flow result can be hardly pre-planned or just with a high error rate.

#### **If there are limitations, what happens when companies go over limit?**

In the case of small company tax, the income cannot exceed 500 million HUF in the year before the taxation year. Should it even happen, than the small company taxpayer status expires by the last day of the previous month before exceeding the threshold.

If you need more detailed information in connection with the presented taxation types, please do not hesitate to contact us.

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