

News Flash

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**Taxation on income generated from
property rental in 2016 in Hungary**

Taxation on income generated from property rental in 2016 in Hungary

As the real estate market continues to boom, details about taxation of this industry can be a very interesting topic and may affect many of us. It would be useful to know what type of possibilities and conditions of taxation are in Hungary in connection with the income gained from let of properties. Our following summary will show the most important rules on property rental.

Property rental as a Hungarian individual

Currently in Hungary there are three ways for leasing a property as an individual:

- As a private-entrepreneur;
- As an individual without VAT number;
- As an individual with VAT number.

The revenue gained from property lease is part of the consolidated tax base and can be defined in two ways in case of individuals not acting as private-entrepreneur:

- **Applying the 10 percent cost ratio:** in this case 15 percent personal income tax is paid based on the 90 percent of the income.
- **Applying detailed cost accounting:** in this case the depreciation, the costs occurred in connection with the rental and the expenditures spent on renovations, maintenances and repair may be deducted. The costs should be supported by invoices (excluding the depreciation).

If the total income exceeds 1 million HUF in the relevant tax year, 14 percent health care contribution should also be paid by the property owner based on the overall profit, unless the overall annual sum of certain contributions reach tHUF 450.

Property rental as a Hungarian company

In Hungary property leasing is VAT exempt according to the general rule. The owner however has the right to opt for a VATable rental, therefore it is up to the owner whether the rental fee is charged with VAT or without VAT (in

this latter case there is no input VAT deduction right). The company has to report its decision of opting for VATable rental in advance to the tax authority. This status can not be changed till the end of the 5th following year.

- If a company lets a property to another company, the renting should be based on a rental contract and invoice has to be issued in any cases. The company has to pay following duties based on the rental income:
 1. 27% VAT (if tax liability was chosen);
 2. 10% corporate income tax;
 3. 2% local business tax.
- If a company lets a property to an individual, also this transaction should be based on a contract and the company has invoicing liability. It is important to mention that accommodations (hotel, guesthouse, camping) have a lower, 18 percent VAT liability.

Property rental as a foreign company

Generally, in case of property the place of taxation is determined by the location of the property, therefore the same taxation rules applies for foreign entities as in case of Hungarian companies.

Difference between income from accommodation service and property rental

To be able to investigate the difference, we have to clarify the two definitions. In the Hungarian law, **accommodation service** usually means a short-term rental, with non-constant staying

which can be performed only with a tax identification number, as a business activity with an accommodation operating license. **Property rental** means a longer term staying, which only can come into existence through lease contract and does not require operating license.

What type of taxation differences are between the two transactions?

We discussed the **general taxation of property rental** at the beginning of this article

In case of **accommodation services** the lessor can choose between two types of taxation:

- **Detailed flat-rate taxation:** the owner pays a fixed annual amount defined by the law based on the number of rooms, which contains 32 thousand HUF personal income tax and 6,4 thousand HUF health care contribution.
- **The owner pays the tax based on the revenue from independent activity,** in this case 15 percent personal income tax and 27 percent health care contribution should be paid.

Is there a difference between VAT liabilities?

According to the general rule, rental of immovable properties is VAT exempt. Oppositely, the accommodation service is subject to VAT, and has the VAT rate of 18 percent.

Is there tourist tax payable for accommodation service?

Yes, but in this case the accommodation provider has only tax collection liability. This tax type is actually paid by the guests. This type of tax belongs to and levied by the local municipality. The tax rates are variable on each municipality, taken into account the statutory maximum. The tax shall be paid based on the overnight stays. It should be paid to the local government's bank account by the 15th of following month. The payment liability has to be fulfilled even if the owner forgot to collect the tax from the guest.

If you have any questions or require any further information regarding this topic, please feel free to contact us.

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