

# News Flash

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**Rules of dividend payment at limited liability companies in Hungary**

## General taxation rules of dividend payment at limited liability companies in Hungary

According to the Act on Personal Income Tax, the total dividend amount paid by limited liability companies to individuals should be considered as the income of individuals, thus public burden payment obligations arise in form of personal income tax and in general case healthcare contribution related to the paid amount. The Hungarian law regulates in connection with limited liability companies detailed the conditions on dividend payment, therefore in our current newsletter we are going to discuss the most important general issues and criteria, to beforehand answer the questions which possibly could arise regarding this topic.

### What is dividend payment?

Dividend payment is, when companies making payments to their members, in the actual financial year, using the profit after taxation of the current year and free accumulated profit reserves.

The taxed profit of the previous, already closed financial year should be considered as the basis, what should be added (or deducted in case of negative amount) with the value of retained earnings.

The total amount of dividend paid for individuals by companies shall be regarded as their separately taxed revenue; therefore they are liable to pay personal income tax and healthcare contributions based on it.

### Dividend payment

In case of limited liability companies, the members decide about the payment of dividends at time of acceptance of the annual report. According to the current legislations in force, except if the articles of association defined otherwise, the dividends should be paid from the company's profit after taxation, in the proportion of primary stakes of the members.

### Persons entitled to dividend payment

According to the law, it's a mandatory condition, that only those members are entitled to dividend payments, who are listed in the company

register as members during the dividend-related general meeting. These members can receive dividend payments only to the extent of their already completed contributions.

### Limits of dividend payment

Dividend cannot be paid in following cases:

- the company's adjusted capital (equity reduced by the fixed reserve and by the evaluation reserve) does not reach the amount of share capital, or it would not reach in case of payment of dividend,
- or the dividend payment would threaten the financial solvency,
- if the articles of association provides that until the submission of the application for registration, one of the members is allowed to pay less than half of his contribution in cash obligation or more than one year deadline is laid down from the registration of the company in the articles of association to provide the cash contribution by the member. The company cannot pay dividends to the members until the unpaid dividends individual capital contributions does not reaches the level of the registered share capital.

## Notification obligation for dividend payment

In Hungary, limited liability companies are not obliged to make any notification regarding dividend payments. Related decision is included in the member's resolution which will be part of the book of decisions of the company.

## Taxes on dividend

### 1) Payable personal income tax on dividends

- From January 1, 2016 the tax rate of personal income tax, in case of earned dividend income, is **15%** of the tax base.  
Dividend \* 15%

### 2) Payable healthcare contributions on dividends

Unlike at the personal income tax, healthcare contribution is not payable in case of interim dividend payments, only based on the

approved dividends, based on the effectively paid dividends from the profit after tax.

- Individuals have to pay a **14%** healthcare contribution based on the received dividend until the upper limit of HUF 450.000  
Dividend \* 14%
- Here we would like to mention, that the following items can be counted when calculating the total amount of healthcare contribution, in order to reduce the payable contributions on dividends:
  - The already paid health insurance contribution based on insured relationship (4% health insurance in kind and 3% monetary health insurance)
  - The already paid health service contribution,
  - The paid health insurance contribution forming part of the simplified contribution to public revenues,
  - The already paid 14% healthcare contribution on other incomes.

### 3) Total payable amount of contributions on dividends

Dividend (HUF)	15% Personal Income Tax (HUF)	14% Healthcare contribution (HUF)	Total Tax (HUF)	Tax rate	Net dividend (HUF)
1.000.000	150.000	140.000	290.000	29%	710.000
2.500.000	375.000	350.000	725.000	29%	1.775.000
3.214.286	482.143	450.000	932.143	29%	2.282.143
7.500.000	1.125.000	450.000	1.575.000	21%	5.925.000
10.000.000	1.500.000	450.000	1.950.000	19,5%	8.050.000

It can be observed, that after the paid dividend reaches a specified amount, related tax burdens are lower, due to the maximized amount of the healthcare contribution prescribed by the law (HUF 450.000).

## Interim dividend payments

According to the current legislations in force, the dividends and their extent can be determined based on the company's annual report and members can receive their proportional share of profit after the financial year has been closed. As this is quite an extensive time, the law provides an opportunity for members to get an interim dividend payment before the end of the reference year. In case of limited liability companies, the interim dividend payments can be presented by the company's manager/executive (if there is a supervisory board at the company, then according with their approval).

## Conditions of interim dividend payments

- The company has to prepare the interim balance sheet, which proves that the company is in the possession of the conditions to pay dividend.
- In case the company has audit liability, also the interim balance sheet has to be reviewed by the auditors.
- The members must guarantee that they will be able to return their prepayments

if the company does not seem to be able to pay their dividends legally at the end of the year, according to the subsequent accounting reports.

- The amount of interim dividends (like in case of dividends) shall not exceed the sum of the company's result and its free profit reserve.
- After the payment of interim dividends the company's adjusted capital shall not indicate a lower value than the amount of the company's registered capital.

## Interim dividend repayments

If the report after the interim dividend payments shows that the company has no opportunity for dividend payments, then the interim dividends should be repaid. In particular, this clause of the regulation protects the company's creditors and vendors.

Please note that this current newsletter only covers the range of limited liability companies and only presents the most important parts and conditions. If you need more detailed information regarding this topic, please feel free to contact us, our tax advisors would be pleased to answer to your questions.

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