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International Tax

Hungary Tax Alert

11 October 2013

Changes to be proposed to participation exemption and company migration rules

The Hungarian government has announced proposed favorable changes to the participation exemption regime and the taxation of company migrations to Hungary. The proposals are expected to be submitted to parliament on 18 October 2013 and, if approved, would be effective as from 1 January 2014.

Participation exemption regime

Under current rules, capital gains on the sale of shares in a company by a Hungarian holding company are exempt from tax in Hungary, provided the Hungarian holding company has held at least 30% of the company whose shares are disposed of for at least one year and had reported the acquisition to the Hungarian tax authorities within 60 days of acquiring the shares.

It is proposed to reduce the ownership threshold to 10% and extend the reporting deadline to 75 days.

Considering these proposals in conjunction with other rules (in particular, the full exemption for dividends received without any minimum participation or holding period and the lack of withholding tax on distributions to corporate shareholders) would make the Hungarian participation exemption one of the most favorable in Europe.

Migration of residence

Under the proposed changes, nonresident entities that migrate their tax residence to Hungary by transferring management and control to Hungary would be entitled to a fair market value basis for tax depreciation purposes. If approved, the new rules would allow companies migrating to Hungary to step up the tax value of their assets to market value, irrespective of the historic or current foreign tax value of those assets.