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Global Employer Services

Global Rewards Update:
Hungary – changes to approved employee share plans

March 2014

Background

Hungarian legislation provides for qualifying tax treatment for certain share options and share awards under an Approved Employees Securities Plan (AESP), if certain conditions are met.

Where these conditions are satisfied, no tax is payable until the sale of the shares in Hungary. The individual is then subject to capital gains tax rules upon sale of the shares.

Effective from 1 January 2014, changes to Hungarian legislation have amended the conditions required to be met for the qualifying treatment to apply.

Changes to approved employee share plans

Previously, local employers were required to register AESPs with the relevant authorities in Hungary. This obligation has now been abolished.

The conditions for the beneficial tax treatment to apply under an AESP remain mostly unchanged:

- a maximum of 25% of plan participants can be executives;
- executives should not receive more than 50% of the nominal value of shares made available under the plan; and
- the benefit provided to participants should not exceed HUF 1,000,000 (c. GBP 2,700) per participant per year.

The following have been introduced as new conditions:

- eligibility for participation in the plan should not be related to the performance of the employee (however, vesting of awards can be subject to conditions not related to the employee's performance);
- the plan should be communicated to all employees and executives (even to those who are not eligible to participate).

The following condition has been removed:

- the number of participants in the plan must not be less than 10% of the average number of participants for the previous year (substantiated by a letter of interest signed by the participants).

Action

Companies may consider implementing an AESP in Hungary, to allow participants to benefit from the tax advantages.

If companies are already operating an AESP (registered prior to January 2014), they should reassess whether the plan meets the qualifying conditions, when:

- changes are made to the plan; or
- the period the plan was registered for (usually up to 10 years) expires.

Although the administrative burden of implementing an AESP has been reduced (i.e. there is no longer a requirement to register the plan with the relevant authorities), companies should ensure they are comfortable that the share plan meets the required conditions. To eliminate risk and in the case of uncertainty, we recommend that companies file a ruling request with the relevant authorities to confirm the approved treatment of awards.

People to contact

For assistance with this matter, or any other issue related to the operation of your global rewards plans, please contact your local Deloitte global rewards consulting services adviser or email us at **globalshareplans@deloitte.co.uk**, and a global rewards consultant will contact you.

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