



Interim tax law changes for 2010

Tax Alert



This edition of our newsletter looks at some interim tax law changes affecting corporate and personal income tax liabilities.

Tax law changes for 2010



The Hungarian Parliament recently approved some changes to the corporate and personal income tax laws.

Corporate income tax

The rules governing the deductibility of certain expenses have been made more strict. Specifically, section A) 13 of Schedule 3 to Act LXXXI of 1996 on Corporate Tax and Dividend Tax ("CIT Act") has been amended to disallow the deductibility of costs and expenditures incurred on transfer of assets and services provided *for no consideration* to a foreign person or a non-resident due to the foreign head office. Such costs will not qualify as being incurred for the operation of the business. The new rule will apply regardless of whether a tax treaty is in effect between Hungary and the foreign person's country of residence and regardless of whether the benefits are provided to a controlled foreign company. The rule will apply to transactions entered after 15 May 2010.

Corporate taxpayers should ensure that they take this interim law change into account when determining the appropriate tax treatment of transfers made without consideration both before and after 15 May when calculating the corporate income tax liability for 2010.

In addition, a new subsection (Subsection 15) to Section B) of Schedule 3 is added to the CIT Act, which classifies grants given for cinematographic and performing arts activities as costs incurred specifically in the operation of the business, provided the grants are verified by the motion picture agency or the government body for performing arts and that they are paid out in accordance with other relevant rules in the CIT Act. This provision became effective on 1 March 2010 and applies to relevant grants provided in tax years commencing in or after 2010.

Personal income tax and rules of taxation

In its Resolution No. 127/2009 (XII. 17.), the Constitutional Court abolished, with retroactive effect to 1 September 2009, the provisions of Act CXVII of 1995 on Personal Income Tax ("PIT Act") relating to the classification of child care benefits as nontaxable emoluments. According to this resolution, income received in the form of child care benefits are not treated as income (in accordance with the provisions of the PIT Act in effect before 1 September 2009), so the benefits should not be taken into account in calculating the aggregate tax base.

The resolution of the Constitutional Court did not establish that the provisions of Act XCII of 2003 on the Rules of Taxation concerning disclosures related to child care benefits were unconstitutional, so the Parliament abolished the relevant provisions of the Act with effect from 1 March 2010.

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