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Interim tax law changes in 2010

Tax Alert

The purpose of this edition of our newsletter is to inform you about proposals for tax law changes that have been submitted to Parliament and partly discussed. The proposals cover several areas that may be of interest.

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Current tax law changes

Personal income tax

Income that falls outside tax regime

The bill includes a provision that would exclude certain income derived from household jobs (e.g. cleaning, babysitting) from the tax net. For the exemption from personal income tax and contributions to apply, the household work would have to be carried out for individuals and paid from their taxed income. Neither the provider of the service nor the recipient would be required to file a tax return if the “employer” complies with his/her notification obligation and pays a registration fee of HUF 1000 per month per worker.

If the notification and registration obligations are not met, a penalty in the amount of HUF 100,000 would be imposed in addition to the imposition of the full amount of personal income tax and contribution liabilities.

Income from abroad and conversion of tax paid abroad to HUF

According to the bill, if income earned in foreign currency is derived from a payer that is required to deduct tax in advance, the exchange rate published by the National Bank of Hungary (MNB) on the 15th day of the month preceding the month the income was earned would be used to convert the amount into HUF for purposes of assessing the advance tax payment.

With respect to income from an entity that is not a payer, however, the bill provides that this exchange rate would not be used. Tax paid abroad would have to be converted to HUF at the exchange rate quoted by MNB and valid as of the last day of the tax year.

Tax law changes relevant for private entrepreneurs

According to the bill, private individuals renting out real estate or providing other accommodation services would not be required to become private entrepreneurs, although such individuals could still take depreciation against income in accordance with the rules applicable to private entrepreneurs. Further, the reporting obligation and the mandatory tax number request obligation would be abolished for VAT-exempt private individuals engaged solely in the renting out of real estate.

In accordance with the amended Corporate Income Tax Act, as from 1 July 2010, private entrepreneurs would be subject to a 10% tax liability on a tax base not exceeding HUF 500 million. This preferential tax rate would be applicable for the first half of 2010 provided certain conditions are satisfied.

Corporate income tax

To reduce the tax burden, the bill would extend the scope of the 10% preferential tax rate on a tax base of HUF 50 million up to HUF 500 million and the applicability of the reduced rate would not be dependent on the fulfilment of the existing criteria.

Because this change would apply as from 1 July 2010, the 2010 tax base would be divided into two parts based on the calendar days of the tax year:

For a positive tax base between 1 January and 30 June 2010:

- A 10% rate would be applied on a tax base up to HUF 50 million by taxpayers that meet the currently effective criteria, which must be apportionated due to the division of the year;
- A 19% rate would apply to taxpayers that do not fulfil the criteria for the 10% rate.

For a positive tax base between 1 July and 31 December 2010:

- A 10% rate would apply on a tax base up to HUF 250 million without having to fulfil any criteria; and
- The rate would be 19% for a tax base exceeding HUF 250 million.

Taxpayers whose fiscal year differs from the calendar year would be required to assess their tax base for 2010 in accordance with the rules effective on the first day of the fiscal year.

Local taxes

The bill would repeal the provisions of the Act on Local Taxes on community tax payable by private entrepreneurs and the tourism tax on holiday homes.

Duties

The bill would exempt direct relatives of a deceased/donor from inheritance tax and gift tax (including a family relationship based on adoption). This change, however, would require an amendment to the table of inheritance and gift taxes, although the limits and tax rates applicable to the various groups would remain unchanged.

Group I would include spouses, adopted and foster children, step and foster parents, Group II would include siblings and Group III all other persons.

Finally, the bill would introduce new provisions that would make the transfer of shares in a domestic company holding real estate to an associated party exempt from transfer tax.

Property tax

The bill would repeal the Act on the Tax of Certain High Value Property to abolish the tax payable on high-performance passenger cars, watercraft and aircraft. (The second part of the tax assessed and filed for 2010 should not be paid.)

Accordingly, the bill would amend the Act on Motor Vehicle Tax and eliminate the provisions on the deductibility of tax paid on high-performance passenger cars from the company car tax. However, under a transitional rule, the tax paid for Q2 of 2010 could still be deducted from the company car tax for Q2 of 2010 with the criteria unchanged.

Special tax on financial institutions

The bill would amend the Act on the Solidarity Tax and Contribution to Improve the Balance of General Government by introducing a special tax on financial institutions. The new tax would apply to institutions with closed financial statements for the business year on 1 July 2010; such financial institutions would be required to assess and file their special tax liability return by 10 September 2010 and pay the amount in two equal instalments by 10 September and 10 December 2010, respectively.

The solidarity tax base and the rate of the special tax are as follows:

Taxpayer	Tax base	Tax rate
Credit institution	Adjusted balance sheet total for 2009	0.45%
Insurance company	Fees earned for 2009, excluding reinsurance	5.2%
Financial enterprise	2009 profit from interest, fees and commissions	6%
Investment company	Adjusted net revenue for 2009	5.6%
Stock exchange	Adjusted net revenue for 2009	5.6%
Commodity trader, venture capital fund manager, financial intermediary	Adjusted net revenue for 2009	5.6%
Investment fund manager	Total of net asset value of funds managed and value of petty cash and portfolio assets managed as at the end of 2009	0.028%

The special tax is to be accounted for in the pretax profits for fiscal year 2010. On the above tax base, financial institutions would incur a special tax liability in 2011 and 2012, the detailed criteria for which will be set out in a separate act to be drafted with the Hungarian budget.

Contact

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