

Breaking Tax News

New corrective measures dealing with the amendment of tax laws

In contrast to our monthly Tax News+, in our Breaking Tax News you will be informed immediately of regulatory changes affecting your business but without commentary by our experts.

On 12 June, a bill was submitted to the Parliament. The bill aims to modify several points of the currently effective tax legislation. The provisions of the bill concern several acts related to financial topics. Specifically, the provisions of the Act on Personal Income Tax, the Act on Value Added Tax and the Act on Corporate Income Tax.

Amendments to personal income tax

Interest income

The bill aims to expand the scope of transactions that do not trigger interest income at the taxpayers under the Act on Personal Income Tax. Based on the bill, no interest income should be assessed if a private individual exchanges securities issued by two different partial funds of the same collective investment vehicle. The lack of assessing interest income in this case is justified by the fact that the private individual does not withdraw funds from the investment during the course of the transaction.

Employer provided housing subsidy

Based on experience related to the practical application of the law, the bill clarifies the regulations concerning the tax exemption of employer provided housing subsidies. The bill sets forth that not only loans received from credit institutions should be taken into account for the purpose of purchasing real estate but also loans borrowed from financial enterprises should be subject to the relevant regulation. This modification to the law was necessary because not only credit institutions but also financial enterprises have provided housing related loans to private individuals on a regular basis. Lawmakers intend to avoid discriminating against those private individuals who borrowed loans from financial enterprises.

The bill expands the scope of those real estate related loans that may be subject to tax exemption under the legal title of employer provided housing subsidies to their employees. Based on the bill, employer provided housing subsidies may also be granted for repaying loans that relate to the acquisition of real estate which is no longer in the possession or the usufruct of the private individual during the time of the repayment period.

As a further improvement, the bill entitles private entrepreneurs to take into account employer provided housing subsidies granted to employees as a deductible costs. The act currently in effect does not provide such a benefit.

Based on the new bill, the modified regulations concerning the real estate related subsidies could be applied retroactively as of 1 January 2014.

Corrective measures concerning corporate income tax

The provisions of the bill that concern corporate income tax would allow for the tax deferral of non-realized foreign exchange gains in the case of preferential exchange of shares. Moreover, it would exempt taxpayers from the transfer pricing obligations in certain cases. This provision applies specifically to taxpayers that transfer assets without consideration to the State or to municipalities qualifying as related parties of the taxpayer.

Corrective measures concerning value added tax

New 'place of supply' rules effective as of 2015

According to the bill, the place of supply would be determined based on the place of settlement (habitation or residence) of the consumer if the service is provided to non-taxable persons. The modification would apply to the following services:

- telecommunication services,
- radio and media broadcasting,
- electronically supplied services.

The aim of the aforementioned modifications of the VAT Act is for Hungary to comply with its obligation to harmonize domestic law in accordance with Council Directive 2008/8/EC. This directive sets forth that as of 1 January 2015 the aforementioned services should be taxed in the country where the services are used. The provisions of the directive are the last phase of updating the legislation in the European Union regarding the place of supply of services.

The bill also extends the scope of the legal settings of the system called '*one stop shop*' in line with the legislation of the European Union. The main point of the '*one stop shop*' system is that taxpayers can fulfill their tax liabilities (regarding the aforementioned cross-border services) in the country in which they are established. Thus, they are not obliged to register in each Member State that is involved in the provision of their services. Provided that the seat of the taxpayer is within the European Community, the taxpayer may register for the '*one stop shop*' system in the country in which its seat is located. If the seat of the taxpayer is located outside of the European Community, it may register in whichever Member State it has a fixed establishment. However, one taxpayer may register in only one country at a time. This decision is binding on the taxpayer for two years. Hungarian taxpayers (providing the aforementioned services) and taxpayers that have a fixed establishment in Hungary but are seated outside of the European Community may register in Hungary. These taxpayers may also fulfill their tax liabilities by means of the tax return filed to the Hungarian National Tax Authority in relation to the services provided from Hungary. In accordance with the above, the bill aims to modify the provisions of the Act on the Rules of Taxation in relation to the remote provision of services (Schedule no. 10).

Extending the scope of reverse charge mechanism to steel industry products effective as of 2015

Within the scope of the opportunities provided by the '*quick reaction mechanism*', Hungary will apply the reverse charge mechanism in respect of the sales of certain steel industry products. The aim of the new regulation is to discourage the abusive actions in the industry. In relation to the above, the Act on the Rules of Taxation extends the scope of extraordinary reporting obligation to purchasers and sellers of the concerned products.

Should you have any remarks or questions regarding the above, please contact our professionals.

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