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Breaking Tax News
Tax law changes

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.

We would like to take this opportunity to draw your attention to the fact that the Ministry for National Economy submitted a Bill which would modify the current tax legislation as of 2016. Please find below a summary of the relevant amendments.

1. Personal income tax and health care contribution

The Bill sets forth that the rate of personal income tax would decrease from 16 percent to 15 percent as of 1 January 2016. Accordingly, the Bill includes certain amendments to the current legislation concerning the tax allowances (family tax and contribution allowance, newlywed allowance). These amendments serve to ensure that the net value of the various tax allowances will remain unchanged.

The Bill proposes that the family tax allowance available to individuals raising two dependents would increase (between 2016 and 2019) from the current amount to HUF 20,000 per dependent.

The monthly amount of the health care contribution would increase from HUF 6,930 to HUF 7,050.

2. Corporate income tax

Tax deferral for growing companies

A new allowance would be introduced as of 2016. Those taxpayers subject to an increase of five times the amount of their profit before tax (in the previous tax year) would be able to defer their corporate income tax payment on the amount of the actual increase (allowance). The amount of the deferral would become due within the subsequent two tax years. The following items should be excluded from the profit before tax calculation: interest revenue, dividends received and revenue derived from related party transactions without consideration.

In order for taxpayers to qualify for this allowance, the following conditions should also be met:

- The taxpayer commenced its activity at least three tax years prior to the given tax year,
- The taxpayer was not subject to any mergers, demergers or transformations in the given tax year or in the previous three tax years.

Should the taxpayer fulfill the above mentioned conditions it may request the above allowance by the filing deadline for the top-up return. By the same deadline the taxpayer should declare the amount of its allowance. As such the taxpayer will be obliged to pay 25 percent of this amount in two equal installments within the first two quarters of the subsequent tax year.

The taxpayer may declare the amount of the allowance in its year end corporate income tax return. This amount (less the first two installments paid as detailed above) would be payable in 6 equal quarterly installments following the second quarter of the subsequent tax year.

This tax allowance is available as of the 2015 tax year.

Other amendments

Based on the Bill, any revenue derived from the refund of penalties or other sanctions as set forth by the Act on the Rules of Taxation or the Act on Social Security would decrease the taxpayers' corporate income tax base. This tax base decreasing item would be applicable if the given taxpayer's tax base was previously increased by the amount of the aforementioned penalties or sanctions.

The Bill includes certain amendments which would clarify the rules regarding the avoidance of double taxation. If the relevant double tax treaty allows for the application of exemption with progression, then the tax payable should be calculated taking into account the foreign income as well.

The Bill reintroduces a definition of recognized stock exchanges. The definition proposed by the Bill re-implements the recognized stock exchange definition (without any substantial changes) previously set forth by Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers, and on the Regulations Governing their Activities.

3. Special tax for financial institutions

Based on a recent agreement concluded between the European Bank for Reconstruction and Development and Hungary, the Bill would reduce the tax rate applicable to credit institutions. Accordingly, the applicable tax rate would decrease from 0.53% to 0.31% in 2016 for that part of the tax base which exceeds the HUF 50 billion threshold. The tax rate would further decrease to 0.21% in 2017 and 2018.

As of 2016, the credit institutions would be obliged to assess their tax base based on their balance sheet total indicated in their financial statements prepared for 2014 (instead of the currently applicable balance sheet total for 2009). The Bill sets forth that the amount of special tax liability (within the period from 2016 to 2018) cannot exceed the amount of the special tax levied in 2015.

In addition, the Bill sets forth a modified definition of investment fund managers. The venture capital fund managers would cease to qualify as investment fund managers from a special tax perspective. The aim of the amendment would be the avoidance of double taxation.

4. The Robin Hood tax

According to the Bill, expenses accounted for in connection with allowances provided to the state (without consideration) would no longer increase the Robin Hood tax base. The new rules would be applicable during the course of determining the tax base for 2015.

5. Value added tax

Preferential VAT rate for certain pork products

Based on the Bill, a preferential VAT rate of 5% would apply to the sale of certain pork products (including fresh, refrigerated and frozen products). The preferential VAT rate would be applicable as of
1 January 2016.

6. Tax on utility pipes and communication networks

The Bill would provide an exemption temporarily for newly built utility pipes. The tax liability related to utility pipes would occur only on the first day of the sixth year subsequent to the initial use of the utility pipes. Furthermore, the development of existing communication wire networks would also be exempt, if as a result of the development the speed of data communication would reach 100 Mbps. In this case the tax base may be decreased by the length of the developed network section (calculated in meters) in the subsequent five years following the initial use of the section concerned with the network development.

We note that the above mentioned exemptions may be applied only if their initial use occurs subsequent to the entry into force of the Bill.

7. Local taxes

The Bill would grant the option of determining local business tax exemption (alternatively a preferential tax rate) to local municipalities in relation to general practitioners having a local business tax base of less than HUF 10 million.

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

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