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Tax News+

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We would like to take this opportunity to draw our Clients' attention to the most recent amendments to the Hungarian tax legislation, with special regard to the amendments which will enter into effect as of 2016.

As indicated in our 'Breaking Tax News' newsletter published on 22 May 2015, the Ministry for National Economy introduced a Bill including the proposed amendments to the Hungarian tax legislation applicable in 2016. The adopted tax law changes were announced on 24 June 2015 and include certain changes compared to the amendments proposed by the Bill. Please find below the relevant tax categories affected by the new amendments.

Personal income tax

Based on the amendments, the applicable rate of personal income tax will decrease from 16% to 15% as of 1 January 2016. As a consequence, certain amendments are required to be made to the current legislation concerning the tax allowances (family tax and contribution allowance for those raising one or three or more dependents, newlywed allowance). These amendments serve to ensure that the net value of the various tax allowances will remain unchanged. The amount of tax allowance remains at a monthly amount of HUF 10,000 in the case of raising one dependent. Those raising three or more dependents will be entitled to a monthly tax allowance amounting to HUF 33,000 per dependent. Furthermore, the decreased tax rate will be applicable to the interest income derived as of 1 January 2016.

In line with the Bill, the amendments set forth that the net value of family tax allowance of individuals raising two dependents would increase to a monthly amount of HUF 12,500 per dependent.

The monthly amount of healthcare contribution will increase from HUF 6,930 to HUF 7,050.

In addition to the above, the following amendments entered into force on 1 July 2015:

Stability Savings Account

In the case of Stability Savings Accounts opened after 1 July 2015, the investment period triggering the application of a tax rate higher than the average tax rate is reduced. Consequently, a 20% tax rate is only applicable by the taxpayer if the investment is interrupted within a one year period... Subsequent to the first year, a 10% tax rate would be applicable to the investment, irrespective of the length of the investment period. The conditions for opening and closing the Stability Savings Account would remain unchanged.

In the case of the Stability Savings Accounts opened prior to 1 July 2015, the previous regulations remain applicable. Thus, a 32% tax rate is applicable if the investment period is less than 3 years. Subsequent to this initial period, the applicable tax rate decreases progressively (i.e. 16% in the third year, 8% in the fourth year and 0% as of the fifth year).

Social security contribution liability of third country citizens

The employment income of third country citizens assigned to Hungary will remain exempt from individual social security contributions and social tax, provided that the assignment is set for a period up to two years. Furthermore (based on a transitional regulation applicable until 30 June 2015) the employment income of third country national expatriates assigned to Hungary was exempt from social security payment liability, even if the assignment exceeded a two year period. This transitional regulation was not prolonged. As a result such expatriates assigned to Hungary become subject to social security contributions, if their assignment exceeds two years.

Corporate income tax

Tax deferral for growing companies

Please be informed that the amendments announced on 24 June 2015 set forth more favorable possibilities with the aim of improving tax deferral for growing companies. Based on the amendments, taxpayers benefitting from the tax deferral for growing companies may be entitled to a tax allowance. The tax allowance may be claimed on investments realized during a two year period subsequent to opting for the tax deferral. Taxpayers are entitled to the aforementioned tax allowance if the realized investment triggers an increase in the number of employees. Based on the wording of the amendments, the available tax allowance is equivalent to the 'preferential investment value'.

The preferential investment value is determined as the gross value of the new asset. The preferential investment value is capped by the increase in the number of employees (during a two year period) multiplied by HUF 10 million.

When applying the tax allowance, the affected taxpayer is entitled to decrease the unpaid part of the tax deferral by 19% of the preferential investment value. A further limitation is that the tax allowance should not exceed 70% of the unpaid tax deferral.

Furthermore, these amendments clarify the calculation method applicable to the tax advances attributable to the tax deferral. The amendments set forth that the amount of tax calculated on the previous year's negative pre-tax profit should not be considered when calculating the tax advances attributable to the tax deferral. Furthermore, the tax deferral may not be applied in the following cases:

- If a taxpayer is subject to a winding up or liquidation procedure, then the tax deferral is not applicable during the tax years of the procedure and with respect to the tax year prior to the start of the aforementioned procedures, and
- If a taxpayer ceases to exist without a winding up or a liquidation procedure, then the tax deferral is not applicable in respect of the taxpayer's most recent tax year.

Robin Hood tax

The proposed amendments relating to Robin Hood tax were adopted without any modifications. Accordingly, any expenditure incurred during the affected tax year as a result of consideration free transfers for the State will cease to qualify as a tax base increasing item.

Amendments to the Government Decree regulating the terms of benefitting from certain incentives provided from EU funds

Several rules set forth by the Government Decree regulating the terms of benefitting from certain incentives provided from EU funds during the programming period covering the years from 2014 to 2020 were amended.

The main amendments (affecting our Clients) relate to the rules on accounting for costs incurred by participation in tenders are the following.

- It was defined on legislative level that the tenderer is obliged to request a proposal from at least three independent parties in order to support the arm's length nature of the prices applied to the assets to be purchased by means of the tender. Furthermore, the tenderer is obliged to verify the ability of the proposing parties to fulfil their contractual obligations.
- The amended rules set forth that the following legislations regulate the category of "additional construction works":
  - Section 6:244 of Act V of 2013 on the Civil Code.
  - Government Decree 306/2011. (XII. 23.) on the detailed rules of public procurement of construction works.
  - Section 132 of Act CVIII of 2011 on Public Procurements (referring to the modification of contracts based on a public procurement).

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