2017 Tax law changes

On 5 December 2016 a new tax law package (the Bill) was introduced to the Parliament. Its content affects the rates of corporate income tax and social tax payable by employers in addition to health tax.

On 12 December the deciding vote on acceptance of the Bill will take place. If accepted it would be published between 15- 20 December 2016.

Please find below a summary of the amendments passed.

25 November 2016

Social tax and health tax

As of 1 January 2017 the social tax rate would be reduced from 27% to 22% and by a further 2 percent to 20% in 2018.

As of 1 January 2017 the health tax rate of 27% would be reduced to 22% and to 20% in the following year. The 14% tax rate on income taxed separately and on fringe benefits would not be subject to change.

Sale of real estate

As of 2017 the calculation method utilized for the tax base of income from the sale of real estate and valuable rights related to real estate would be harmonized. If the real estate is sold either in the same year as it was purchased or in the following year, the tax base would be 100% of the proceeds from the sale (regardless of the type of real estate). This amount would be gradually decreased to 0% during the subsequent 5 years, similarly to the tax base calculation method currently applicable in the case of residential real estate sale.

Personal income tax base adjustment item

As a result of the reduction in the rate of social tax and health tax from 27% to 22% and to 20% from 2018, the personal income tax base adjustment item will also change for taxpayers who settle these liabilities themselves and do not recognise these items as expenses or are not reimbursed for such expenses. In the case of such taxpayers the tax base would amount to 82% of their income generated in 2017 and 83% of their income from the following year.

Corporate income tax

The Bill would reduce the current progressive tax rates (10% and 19%) to a flat 9% rate, which would be applicable to the entire tax base.

Due to this change, regulations which had an unfavourable impact on taxpayers due to the current wording of the legislation would be amended.

The Bill aims to clarify the treatment of tax advances payable in 2017 and thereafter. Previously declared tax advances would be automatically reduced by the Hungarian tax authorities. Additionally the method applicable to undeclared tax advances would become subject to amendment.

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Furthermore, the Bill would extend the period of benefit with regards to tax incentives. Development tax incentives could be claimed in the year in which the investment is commissioned (or in the following tax year at the taxpayer's discretion) and in the subsequent twelve tax years, but no later than the sixteenth tax year after reporting or filing the request. In the case of provision of support of spectator team sports, performing arts organisations or motion picture productions, tax incentives could be claimed within eight years from the year of provision of the support.

Local tax

As of 1 January 2018, the bill would extend the scope of building tax to include advertising displays installed on real estate properties. Under the proposed Bill, the taxpayer would be the owner of such advertising displays as of the first day of a given year, as regulated by the act on urban landscape. The act on urban landscape is expected to be amended at a later date in order to clarify the concept of advertising display. The tax liability would arise on the first day of the year following the year in which the official permit for the installation of the advertising display is issued or, in the absence of such permit, on the first day of the year following the year in which such advertising display is installed on the real estate. The tax base would be determined by the surface area (in square metres) of the advertising display that is suitable for displaying advertisements, while the annual tax rate would be between nil and HUF 12,000 per square metre based on the relevant municipality's discretion.

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