

Breaking Tax News

Tax law proposals

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.

The Hungarian government submitted 2015 tax law proposals (“the Bill”) to Parliament on 21 October 2014. Following debate by the Parliament, the Bill is likely to be passed by the week starting on 17 November 2014. In the meantime, various amendment proposals initiated by the individual members of the Parliament and certain Parliament committees may modify the final wording of the Bill.

Once the Bill has been passed by the Parliament, we will inform our Clients about the supplementary regulations set forth therein.

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Proposed modifications concerning private individuals, including personal income tax, employee social security contribution, social contribution and health care contribution

Qualification of income

The Bill sets forth, that no benefits may fall within the scope of preferential taxation if it can be determined that the individual received such benefit in exchange for its activity (work performed). This provision would affect primarily those income elements which were provided to the employee with preferential tax treatment (e.g. tax free contribution or specifically defined benefits / non-wage benefits).

Cafeteria system

The Bill may affect the cafeteria benefit system significantly and detrimentally.

As of January 2015 the difference between the specifically defined benefits and non-wage benefits with respect to the payable health tax would cease to exist. 16 per cent personal income tax and 27 per cent health tax should be paid by the provider on non-wage benefits provided within the limit defined by the law. The tax base would be the sum of the provided non-wage benefits multiplied by 1.19.

The tax burden of specifically defined benefits provided to the employees (including benefits provided based on internal statutes) would increase. As a result of multiplying the tax base by 1.53 (rather than the previously applied 1.19) the amount of governmental levies would approach the amount generally applied in the case of wages.

The tax base of the non-wage benefits should be multiplied by 1.53 rather than by the previously applied 1.19 if the monthly limit and/or the annual limit of the provided non-wage benefits exceed the limit defined by the law. The monthly limits of the non-wage benefits would not change. However, the cumulative limit of the non-wage benefits provided by the employer in a given year would decrease from HUF 500,000 to HUF 450,000.

Pension insurance and other contributions

Within the scope of the Bill the definition of pension insurance will be refined: in the future solely insurance which includes all risk components (death, health, retirement, reaching the retirement age limit) would qualify as pension insurance, if the insurance does not cover other risks in addition to those listed above. Moreover, the insured party should be entitled to the insurance benefit during the entire period of the contract (excluding the benefit provided as a result of death). The bill also clarifies that solely those retirement benefits which are provided in their own right may be considered as retirement benefits for pension insurance purposes, as such orphanage or widowhood pension may be not considered as retirement benefits.

On the basis of the Bill the tax credit rules applicable to pension insurance become subject to significant modification.

- The government aims to support savings for pension purposes. Therefore, if the insurance fee of an auxiliary insurance exceeds 10 per cent of the amount of the total insurance fee less the auxiliary insurance fees (i.e. solely the pension insurance fee), then the tax credit should be utilized solely for a specified portion of the pension insurance fee.
- The possibility of utilizing the applicable tax credits and cross-financing various insurance policies with the tax credit will no longer be available. The tax credit for pension insurance may only be credited for the benefit of pension insurance policies in which the payments (resulting in entitlement to the tax credit) were made in the tax year. If an individual is entitled to the tax credit based on more than one pension insurance policies, then the tax benefits will be credited proportionally according to the payments made with respect to each policy.
- The Bill sets forth that the tax credit applicable to pension insurances fees should not be utilized following entitlement to retirement pension.

Legislation dealing with the specific whole life insurance policies (with redemption value) will also become subject to modification. Following a three year interim period such insurance policies will be treated in the same manner as other life insurance policies with a saving-nature (e.g. composite life insurance). As a result, according to the Bill the tax free treatment of the regular fee for this type of insurance paid by a disburser (e.g. company) will cease to exist as of January 2018. Following this date the income from such insurance will also be subject to taxation as interest income.

Supporting a previous interpretation of the authorities, the legislation will include the fact that the modification of a contracting party in an insurance policy will not qualify as taxation point. The exception to this will be if the fee was paid by a disburser and following the modification, the new contracting party will be an individual. In such a case, the fee paid by the date of the modification will be taxable in a lump sum. The individual will bear the burden of taxation.

The Bill also sets forth (with respect to the provisions of the new Civil Act) the liability insurance and that the fees of such insurance should not be considered as income of the individual. Therefore, the fees paid by a company for the liability insurance of executive officers will not be taxable. A transitional rule sets forth that the new (and more favorable) rule may be applied to any of the tax years preceding the date upon which this rule came into effect.

Tax allowances, validating the family tax allowance as contribution allowance and related tax pre-payment statements

From 2015, newlyweds may receive a monthly tax credit of HUF 5,000 for two years (or alternatively until they become entitled to family tax credit) following the date upon which they were married if certain conditions are fulfilled. The newlyweds are required to jointly verify the validation of the allowance.

In 2015, the total amount of the family tax credit available for utilization will not become subject to modification in the case of two dependents. However, between 2016 and 2019 it will be gradually increased to double the previous amount (i.e. HUF 20,000 per child).

The tax identification number of the dependents should be indicated both in the monthly (mid-year) tax returns and in the year-end tax returns. As a consequence with reference to family tax allowance all children should have a tax identification number.

As per the Bill tax pre-payment statements, which are required in order to verify allowances, may be given to a disburser (i.e. not only to employer) providing regular taxable income. Such disbursers should include the family tax allowance in the payroll processes.

The changes introduced by the Bill should be applied to statements made after 31 December 2014.

Other changes

Based on the Bill, in the future, digital business travel reports will also be accepted for tax purposes. Digital business travel records should include specific data as set forth by law and should be generated and stored in a closed system that is deemed as acceptable by Hungarian law.

The Bill also extends situations in which the employer may provide tax-free housing loans to its employees. In addition the bill includes clarifications when the income arising from the application of a preferential interest on a housing loan should not be taxable at the individuals.

According to the Bill data supply obligations will arise regarding the specific employee share programs to be commenced after January 2015. The prospectus issued or the copy of any similar document should be supplied to the tax authority within 20 days following the date upon which the compulsory vesting period begins.

If the Bill is accepted, the monthly amount of minimum health care contribution would increase from the current HUF 6,810 to HUF 6,930. The daily amount of the contribution would be increased to HUF 231.

Income constituting the social security contribution base

Based on the Bill, the social security contribution base will be amended. In the case of any employment contracts concluded under foreign law, the fee defined in the labor contract (but not defined in the Bill) will be considered as the social security contribution base (lacking Hungarian personal income tax (advance) base). Previously the base salary was considered as social security contribution base.

The insurance status of third country personnel

According to the Bill the employment income of third country personnel in Hungary not exceeding 2 years would remain exempt from employee contributions and social tax. However according to the Bill, in the case of assignments which occurred prior to 1 July 2013 the two year period should be calculated from this date. In this case insurance liability arises on 1 July 2015 at the earliest.

Amendments related to corporate income tax

The Bill would amend various essential points of the provisions of the corporate income tax.

Utilization of tax losses carried forward

An essential amendment is that tax losses generated in 2015 or subsequently could only be utilized in the following 5 years. Tax losses generated by the last day of the tax year started in 2014 could be utilized by no later than the tax year including 31 December 2025 (with the conditions applicable at the time when the tax loss occurred).

The Bill would add new conditions to the currently applicable ones in relation to the utilization of tax losses inherited by means of legal succession or available subsequent to the changes of the majority control of the company. The limitation would affect the annually utilizable amount of such tax loss. The annual amount of the utilizable tax loss would be calculated with the ratio of the revenue derived before the above events from the activity inherited / continued and the total amount of the net revenue prior to any of these events.

Change in the calculation of the income minimum

If the Bill is accepted the method for calculating the income minimum would be amended. As of 2015 the total income of the taxpayer would not be decreased by the amount of the cost of goods sold or by the amount of the intermediated services when determining the income minimum.

Corporate income tax allocation and extension of the tax base incentives

The bill introduces a new legislation based on which companies would be able to allocate the amount of their corporate income tax advances, top-up payment liability and payable tax for beneficial purposes. The allocated amount is capped at 80 percent of the annual tax payment liability. The following items would be considered as beneficial purposes: the support provided to cinematographic works, to associations for the protection of performer' rights and to popular team sports previously defined by the CIT Act. A part of the allocated amount would generate credit for the company, which would be indicated as a decreasing item on the tax account balance of the company. The amount of the tax credit would be 7.5% of the amount allocated from the tax advances or the top-up payments, or 2.5% if the amount is allocated from the tax payable. The income accounted for as a result of this credit would not be taxable for corporate income tax purposes. According to the Bill the provisions of the above legislation and the tax allowances previously in force (on support provided for the same beneficial purposes) would not be available in the same tax year.

As of 2014 corporate income tax base incentives would become available to companies supporting higher education institutions based on supporting agreements. Agreements may be concluded for the establishment and operation of the institutions for at least a 5 year period. The amount of the tax base incentive would be 50 percent of the provided support.

Transfer pricing legislations

The Bill would extend the scope of the term related party entities. As of 2015 the taxpayer and any other person would be considered as related parties, if the same management may influence the financial and business decisions of the parties. In addition to the extension of the related party entity term, the Bill would introduce a new provision regarding the arm's length terms applicable for the determination of the prices between related parties. Accordingly, if considering the method applied by the taxpayer it is deemed as being reasonable, the arm's length price should be determined by limiting the result of the database research to an interquartile range. This would result in the reduction of the possible distorting effects of the database research. The Bill provides a non-exhaustive list of the conditions to be analyzed when applying the limitation of the database research.

Amendments relating to R&D incentives

If the Bill is accepted a new R&D qualification system would be introduced. The term "R&D activities carried out within the taxpayer's operation" would be supplemented. As a result, the corporate income tax, local business tax, innovation contribution and pharmacy tax incentives related to R&D activities carried out within the taxpayer's operation would only be available to taxpayers if they are in the possession of a certificate issued by the Hungarian Intellectual Property Office. The qualification (which is currently only optional) would gradually become statutory. The tax year 2015 would serve as a transitional period. The practical implementation remains open to clarification.

Amortization of goodwill

A favorable amendment to be introduced by the Bill is the 10% amortization that would be allowed regarding goodwill for corporate income tax purposes.

Tax exemption of foreign real estate funds

By supplementing the term permanent establishment the Bill seeks to clarify the fact that no permanent establishment would be generated in Hungary in case of the utilization or sale of the real estates for those real estate funds which are established in an EEA state and are not subject to an income tax equivalent to corporate income tax at the state of residence.

Special tax for financial organizations

As of 2015 the Bill would repeal the special tax of financial organizations payable by investment funds in relation to the managed funds. However, from this date onward taxation liability would arise on collective investment forms, whose units are distributed by distributors with a seat or branch in Hungary. The tax base would be the distribution fee and the rate would be 25%. The distributor would be liable for the collection, determination, submission and payment of the tax. The tax would be paid quarterly. The distributor would remain liable for the payment of the tax even if it would default its tax collection liability.

Changes concerning the Act on accounting

Rather than the Civil Code, the definition of financial leasing in the Act on accounting would be in accordance with the Act on credit institutions and financial enterprises.

On the basis of the Bill the last financial statement (or the interim balance sheet) may be used to support the equity of the company for six months following the balance sheet day. The Bill would further specify the accounting legislation regarding supplementary payments if the supplementary payment, or its repayment, is not performed by means of a cash provision. In such cases accounting rules pertaining to sales should be applicable. The claims arising from such transactions should decrease the retained earnings or the tied-up reserve of the company.

The Bill contains technical specifications regarding the accounting treatment of the yields paid within the scope of trust funds.

According to the Bill in the case of transfer of business units, defined by the VAT act, the portion of the received amount (in exchange for the transferred assets) that exceeds the book value of the transferred assets decreased by the book value of liabilities transferred should be accounted for as net sales revenue.

Furthermore, the Bill defines the accounting treatment of the paid (payable) and received (receivable) rebates in case of intermediated cash repayments as prescribed by the VAT Act. Such rebates should be accounted for as other income or other expense, if the Bill is accepted.

The Bill would extend the definition of 'mistake' to the accounting entries which are necessary due to the modification of contracts or accounting documents in respect of economic events relating to closed fiscal years.

The new provisions concerning the Act on accounting may be applied (with the exception of certain cases) to financial statements pertaining to a financial year started in 2014. The company would be obliged to apply these provisions in respect of financial statements pertaining to a financial year started in 2015.

Changes relating to value added tax

Changes regarding reporting liabilities

According to the proposed Bill, the current threshold (2 million HUF) for the preparation of the domestic sales and purchase listing would be decreased to 1 million HUF. In accordance with the above, generally those domestic transactions should be reported that are charged with VAT and reach or exceed the 1 million HUF threshold. Nevertheless, as a simplification possibility of the administrative burden the taxable persons may fulfil their reporting

obligation by including all invoices in the domestic sales and purchase listing regardless of whether the above mentioned threshold is reached or exceeded.

According to the Bill, another change with respect to VAT reporting is that newly established taxable persons without a predecessor would be liable to submit monthly VAT returns until the last day of their first tax year (rather than the current quarterly reporting frequency). Furthermore, in certain cases when taxable persons are obliged to submit annual returns, filing frequency would change from annual to quarterly. The Bill also includes a clarifying provision on the European sales and purchase listing liability that relates to the filing frequency of the listing.

The date of supply in the case of transactions subject to periodic settlements

The Bill would amend the determination of the date of supply in the case of transactions subject to periodic settlements. As a main rule the date of supply would be the last day of the settlement period. However, the new regulation would introduce some exemptions.

Therefore, if the due date of the payment and the issuance of the invoice were prior to the last day of the settlement period, then the date of supply would be the issuing date of the invoice. Furthermore, if the due date of the payment was after the last day of the settlement period, then the date of supply would be the due date of the payment (but no later than 30 days following the last day of the settlement period).

The new regulation would come into force subject to the following timing:

- With respect to accounting, audit and tax advisory services the new rules should be applicable as of 30 June 2015 for periods where the due date of the payment comes after this date.
- For all other transactions with periodic settlement the new rules would be applicable if both the beginning of the settlement period and the due date of the payment would come after 31 December 2015.

Tax rate reduction and elimination of tax exemption

In accordance with the Bill as of 1 January 2015 the applicable VAT rates would decrease with respect to certain goods. Therefore, the VAT rate in case of the sale of animals falling into the heavy category (cattle, sheep and goats) and carcasses (similar to certain pigs and their by-products) would decrease from 27% to 5%.

According to the Bill, portfolio management services would not be subject to VAT exemption as of 1 January 2015. According to the justification of the Bill the timing of its entry into force was tied to ensuring legal certainty. In line with the above, if the taxable person provides portfolio management services in the framework of periodic settlement the taxable treatment of the transaction should be applied to consideration relating to periods following 31 December 2014.

Other amendments

The input VAT charged on the purchase of petrol would be deductible provided that the petrol is directly used as material for another supply of goods (i.e. the VAT is included in the VAT base of another supply of goods).

In order to reduce tax frauds within the industry (applying the opportunity provided by the “quick reaction mechanism”) as of 1 January 2015 Hungary will introduce the reverse charge mechanism to the sale of certain products within the steel industry. The Bill would clarify the range of the products falling within the scope of the domestic reverse charge mechanism.

The Bill would clarify the VAT treatment of advance payments and the definition of public service provider. Furthermore, the Bill includes new provisions for the tax warehousing activity that clarifies the obligations and responsibilities of the tax warehousing provider in such cases when the tax warehousing provider acts on behalf of a non-Hungarian established taxable person (which sells its products from a tax warehouse) that is not liable to register for VAT purposes in Hungary. In addition to the above, the Bill sets forth the reciprocity of VAT refunds with the Kingdom of Norway. As a consequence of the above in the case of Norway a different procedure would be applicable to VAT refunds in the future.

Advertisement tax

Essentially the Bill includes smaller, primarily technical, clarifications. However, a significant change is that a preferential rule with respect to the aggregation of the taxable amount of related parties would be introduced. In line with this new

rule, during the course of the calculation of the tax base for related parties only that proportion (practically the daily proportion) of the tax base should be considered in which the related party status was in existence (i.e. not the total amount of the related party tax base should be aggregated in cases in which the related party status did not exist for the whole tax year).

Public health product tax

As a consequence of the Bill a new product group (alcoholic beverages) would be fall within the scope of the current legislation. For these beverages progressive tax rates would be introduced. The tax would be from HUF 20 to HUF 900 per litre based on the alcohol content. However, sugar products that contain at least 20% honey but maximum 40% sugar would be excluded from the scope of the legislation.

Local taxes

The Bill would broaden the taxation right of the local municipalities and it would allow them to introduce “municipal taxes”. Practically the local municipalities would be allowed to introduce any tax type (by means of issuing a decree) for tax subjects that are not being taxed by the state or local tax authority. However, the scope of the municipal taxes would not cover organisations and entrepreneurs falling within the scope of local taxes (in their entrepreneurial capacity). Since no other limitation is set forth by the Bill the municipal taxes would allow the taxation of properties on a local municipal level (within the scope described above). The Bill does not set forth further limitations. The Bill additionally sets forth that the act on local taxes may be applicable to municipal tax only if the act explicitly establishes such obligatory application.

The Bill would introduce more equitable rules for the aggregation of the local business tax base of related parties. According to the current rules the tax base should be aggregated without any limitation even if the related party status did not exist during the whole year. Based on the Bill, the amount of sales revenue, expense and costs of the related parties should only be considered proportionately for the period when the related party status existed (calculated based on daily proportioning).

New terminology and tax exemption would be included in the local business tax regulation. Based on the current rules (as a result of the limited deductibility of the cost of goods sold) local business tax liability occurs at cooperatives operating as seller and buyer in the agricultural sector although (due to their specific operation) these cooperatives do not realise margin on their sale. Therefore, the Bill would introduce tax exemption for cooperatives operating as seller and buyer. A cooperative would qualify as “buyer or seller cooperative” if at least 95% of its net sales revenue derives from the sale or purchase of products to and from its members.

The current rules limit the right of the Municipality of Budapest to withdraw resources from the district municipalities. The Bill would repeal the relevant section of the act on local taxes relating to the above limitation and the right of the Municipality of Budapest to withdraw resources would be governed solely by a separate legislation.

Duties

According to the current rules officers of national organisations, member of embassies and consulates and their family members are provided with exemption from duties and transfer taxes based on reciprocity. The Bill would amend the wording of the current legislation. Based solely on reciprocity the acquisition of properties for diplomatic purposes would be duty and transfer tax exempt. The new ruling intends to ensure the clear interpretation of the wording of the rules since the current practice already takes into consideration the above limitation.

The Bill would broaden the definition of real estate holding entity. From the total asset value in the books of the taxpayer currently, solely cash receivables and cash equivalents should be excluded when determining the basis of the calculation of the real estate property ratio. However, in the future both accruals and loan receivables would decrease the total asset value.

As a consequence of the above, the number of companies that qualify as real estate holding entities (i.e. the book value of real estates would exceed 75% of the above described basis) would increase. These amendments are intended to

reduce tax avoidance practices. The current regulations allow the manipulation of the ratio by generating accruals and loan agreements.

The Bill would clarify the fact that the due date of the duty payment liability for the beneficiary under the trust asset management contract would arise upon the date of the actual acquisition of the asset (and not upon conclusion of the contract).

According to the current regulations the base of the duty is the difference between the market value of the acquired property and market value of the property sold before or after the acquisition of the first property. However, if the sale of the property occurs subsequent to the acquisition of the new property then the private individual is liable to pay duty on the acquired property. Therefore, the preferential tax treatment may only be claimed subsequent to the sale. The Bill would introduce a one year grace period based on the statement of the private individual. The tax authority would levy the duty after the sale of property within the one year period.

The Bill would remove the obligation of the leasing companies to issue a statement on the sales revenue ratio in relation to the acquisition of vehicles and trailers. Considering that such leasing companies are exempted from the duty without any further limitation, the sales revenue ratio requirement is no longer necessary.

The Bill would amend numerous rules relating to procedural duties. The amendments generally relate to the method of the settlement of the duty. Their aim is to reduce physical stamp duties. The new Bill would aim for settlement through wire transfer and cash equivalent (i.e. bank or credit card). The rules applicable to settlement of court procedural fees would also become subject to amendment.

Changes to financial transaction tax

The Bill would amend rules relating to transactions carried out with bank cards. Differing from the general rules, in the case of these payment types the total value of the transactions concluded by using debit and credit cards (as 'cash equivalents') in the prior calendar year would be considered as one transaction. The tax applicable to the transaction would be HUF 800 on yearly basis while this amount would be HUF 500 in the case of bank or credit cards with a pay pass function. The transaction tax should be determined, reported and settled by the financial service provider once a year by 20 January of each year.

Telecommunication tax related amendments

If the Bill is accepted, then the supply of internet services would be subject to telecommunication tax as of 1 January 2015. The tax base would be the data traffic in gigabyte utilized by the purchaser/user of the service. A tax burden of HUF 150 would be levied on each started gigabyte. The aim of extending the tax liability derives from the constant expansion of internet based communication as compared to telephone based communication. However, based on the current wording of the Bill, not only the internet usage would be subject to telecommunication tax. The Bill does not set forth any restrictions in terms of the direction of data traffic. As a result, the service providers would be liable to pay telecommunication tax on data traffic of downloads and uploads as well.

As per the Bill, the telecommunication tax would be payable on a monthly basis. The payable amount may be decreased by 1/12th part of the corporate income tax reported and paid by means of the latest tax return submitted prior to the given month.

According to the recently submitted amendment proposal, the monthly amount of telecommunication tax charged on internet traffic data may not exceed a threshold of HUF 700 in case of private individual subscribers and HUF 5,000 in case of all other types of subscribers.

Supervisory fee of food multiples

The Bill would significantly increase the rate of supervisory fees (which is currently 0.1%) of those retail stores which sell daily consumer goods as per the Commercial Act and of which the sales revenue exceeds HUF 50 billion. The sales revenue realized through this activity during the prior tax year (excluding the amount of excise tax and public health

product tax) would be subject to a supervisory fee by means of progressive tax rates reflected in tax base ranges. Sales revenue of up to HUF 500 million would be exempt, whilst a sales revenue of above HUF 500 million and up to HUF 50 billion would be taxed at a rate of 0.1%. Thus the current rate would remain applicable up to this threshold. Within the range of HUF 50 billion to HUF 300 billion the tax rate would increase by 1% per HUF 50 billion. For the portion of sales revenue which exceeds HUF 300 billion, retail stores selling daily consumer goods would be liable to pay supervisory fees calculated at a tax rate of 6%.

Amendments related to the customs administration

The Bill significantly effects the regulations applicable to customs control. The aim of customs control would be subject to amendment in addition determination methods and the name of control procedures would be modified and new items would be added to the legislation. As a new item, “custom audits” would be initiated, which would give a new perspective to the custom controls. As a result of the amendments, several rules applicable to the modified area of customs control would resemble the rules pertaining to tax investigations as set forth in the Act on the Rules of Taxation.

Environmental tax modifications

According to the Bill, certain new product categories would be subject to environmental tax. These categories are as follows: other plastic products, other chemical products and stationary. If only a small amount of environmental tax related products are produced then the taxpayer would be entitled to pay a flat-rate amount of tax.

Amendments to the Excise Act

The most significant amendment of the excise legislation would be the increase of excise guarantee imposed on traders with excise permission. Based on the Bill, the amount of excise guarantee would be HUF 600 million in the case of trading pertaining to mineral oil and HUF 150 million in the case of trading pertaining to other excise products. The amendment would not affect the taxation of tobacco products.

Energy tax related amendments

According to the Bill, the tax rates applicable to energy would increase. Furthermore, the Bill would clarify the base and due date of energy tax liability imposed on the quantity of energy purchased in a tax exempt manner and used for own purposes.

According to the Bill, the right to deduct would be ensured for energy purchased in a taxable manner and used for mineral products.

Amendments related to the rules of taxation

Reinforcement of the prohibition of differing tax treatment of the same transaction

The prohibition of differing tax treatment of the same transaction has been reinforced by the Bill. Thus, the same transaction may not be treated differently by the tax authority. As a result, the assessments applicable to one party involved in the transaction must be strictly taken into account when carrying out a tax audit at the other party of the given transaction. The Bill aims to emphasize that the taxpayer may only rely on the prohibition of differing tax treatment in terms of previously investigated transactions on which the tax authority made an explicit comment.

Rules against aggressive tax planning (‘hybrid structures’)

The Bill would introduce an anti-hybrid provision. The proposed rule says that if transactions affected by international agreements (i.e. by double tax treaties) are treated differently from a legal perspective by the jurisdictions involved, then the different legal treatment should not result in a double non-taxation situation. In such case the Bill would grant the right of taxation to Hungary irrespective of the treaty provisions.

Correcting VAT status declarations

The Bill clarifies that taxpayers may initiate the correction of a VAT status declaration prior to the commencement of a VAT audit, provided that the statute of limitation has not elapsed. Furthermore, the Bill sets forth scope of information in relation to which the correction may be requested.

Reporting activities involving road transport

The Act on the Rules of Taxation would be amended by a new reporting regulation. Based on this, certain activities pertaining to road transport may solely be carried out by those taxpayers who are in possession of a valid identification number from the Electronic Control System of Road Transport. The activities which are subject to this reporting liability are the following: intra-Community acquisition / sale and import / export for other purposes of goods; first domestic sale of a product to a non-end customer.

In order to receive an identification number from the electronic control system, a filing must be made toward the tax authority. However, the person responsible for fulfilling the reporting obligation will differ based on type of the transaction.

Road transport activities which are subject to road fees as set forth by the Road Fee Act (i.e. transport carried out by means of a vehicle exceeding a total weight of 3.5 tons) should be subject to a reporting liability. However, in the case of "high risk products" transportation carried out by vehicles with a weight of less than 3.5 tons should also be reported. This regulation differentiates high risk foods from other products based on their weight and value. A further liability in connection with the transportation of high risk products is the provision of a "risk guarantee".

As a further amendment, the tax authority may require the addressee, the sender and the transporter to make a statement concerning the circumstances under which the transportation took place. If inconsistencies arise in terms of the nature of the cargo, the consignment and the destination or if other risk elements are present, then the tax authority may apply quarantine seizure. If the taxpayer fails to report the road transport activities, then the unreported product will qualify as a product of uncertified origin. As a consequence, the tax authority may assess a default penalty up to 40% of the value of the unreported product.

In relation to the default penalty assessed due to not fulfilling the reporting obligation, the Bill sets forth that a product of uncertified origin can be seized in the amount of the assessed default penalty.

Increasing control competencies

The Bill would entitle the tax authority to request information (traffic data) from the telecommunication companies. This would simplify the process of tracking electronic services.

Disclosure of tax secrets in order to combat tax avoidance

If the tax authority identifies a contractual or other kind of relationship of more taxpayers in relation to which the intention of tax avoidance may be likely, then (based on the Bill) the authority will be authorized to inform the other parties subject to the transaction concerned.

Binding tax ruling

The Bill would set forth a deadline for the binding force of a binding tax ruling imposed on the tax authority. The binding force would be effective until the last day of the 5th tax year following the issuance of the binding tax ruling. A deadline extension of two years would subsequently be available. The deadline would also be applicable to those binding tax rulings which were issued prior to the entry into force of the Bill. However in such a case the starting day from which the 5 years would be reckoned would be the entry into force of the Bill.

Furthermore, (beyond the legal amendments affecting the binding force of tax rulings and a substantial modification of the background) the binding tax ruling would not be applicable if certain liabilities set forth by international law were modified.

In addition to the application of the regulations set forth for the binding tax ruling, the Bill entitles the taxpayer to request the confirmation of the minister responsible for tax matters regarding the correctness of the method used for dividing the amount of deductible VAT.

However, the Bill does not provide for the possibility of requesting confirmation of both the contemplated transaction and the method used for dividing the amount of deductible VAT in one request.

In addition to the above, the Bill sets forth the extension of deadlines available for issuing binding tax rulings. Accordingly, the deadline would be 90 days rather than the previous 75 days applicable in standard procedures. Furthermore 60 days would be available rather than the previous 45 days applicable in accelerated procedures. In addition, the fee for advance consultation with the tax authority would be increased from thHUF 100 to thHUF 500.

Stricter sanctions for obstructing tax procedures

If a taxpayer repeatedly obstructs the investigation, the store lock up, the administrative procedure or the enforcement procedure performed by the tax authorities, then the amount of default penalty to be assessed by the tax authority would be up to thHUF 500 in the case of private individuals and HUF 1 million in the case of other taxpayers.

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