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highlights

5% VAT upon sales of new residential properties – On 14 December the Hungarian Minister of Economy submitted Bill T/8196 on certain statutory amendments in connection with economic growth. The proposed amendment was approved by Parliament on 15 December. Based on the official reasoning the building of new housing must be promoted in order to boost national economic growth. Setting up homes is a crucial social and economic duty. To this end the Bill proposes reducing the VAT rate for newly built housing and simplifying construction regulations.

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What impact is the VAT cut expected to have?

By reducing the VAT rate related to the sale of housing, the new regulation is expressly aimed at boosting economic growth and employment expansion through an upswing on the housing market on the one hand, and increasing the chances of setting up a home on the other. The fall in housing prices could boost the housing market as well as the building of new housing to a considerable extent as well. In this regard the state can resort to tax, value added tax to be precise, which today amounts to 27% for newly built housing.

In which cases may the preferential rate be applied?

A preferential tax rate of 5% can be applied upon the sale of residential properties under a social policy scheme from 1 January 2016 until 31 December 2019, after which the legislation will be repealed. Pursuant to Council Directive 2006/112/EC, reduced rates may be applied by Member States for housing and building housing units as part of a social policy. The amendment defines housing provided for social policy purposes as that with no more than 150 square metres of total usable floor space and units with no more than 300 square metres of total usable floor space in the case of multi-dwelling properties and detached family houses respectively. The legislation does not provide any more criteria, which means that special rules such as those ensuring benefits for families upon setting up homes do not need to be considered. Likewise, it is not necessary to know whether the floor space and the number of people moving into the housing are in proportion, and no declaration has to be made by the buyer on whether he owns any other properties.

As a general rule of VAT legislation there is a VAT payment obligation on new housing, and thus the preferential tax rate refers to new properties sold under a social policy scheme. Pursuant to VAT rules, a property shall be regarded as new if it has not yet been used, or if it has, then two years have not yet passed between being approved for use and sold.

What to watch out for

The preferential tax rate of 5% shall be applied for new residential properties sold under a social policy scheme if the transaction takes place on or after 1 January 2016. When applying the regulation, it should be noted that the performance date of the sales as per the VAT Act will have to be taken into account, which is defined precisely in the sales contract. This regulation does not pertain to cases when private individuals realise investments on building lots they own, but the chances are that this will also change (according to plans, VAT could be reclaimed up to HUF 5 million).

The newsletter accurately reflects the statutory provisions as they stand at the time of its issue.
The authors of the news articles have endeavoured to provide general information that both reads well and is professional. Given the general nature of the content and possible changes to legal regulations, please contact us if you require this information tailored to your personal circumstances.

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