

wts newsletter

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highlights

Tax savings related to historic listed buildings and structures from 2017

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As part of the usual annual amendments package, new corporate tax base allowances (deductibles) will be introduced from the beginning of next year.

Tax base allowances

Pre-tax profits/tax bases can be reduced at taxpayers carrying tangible assets in their books not only by the renovation cost of buildings and structures protected under the national scheme of historical monuments or placed under local protection, but also by the cost of any maintenance work performed on them. Deductibles related to maintenance work can only be accounted for up to 50% of the pre-tax profit, where the value of the cost calculated with the valid tax rate cannot exceed the HUF equivalent of EUR 50 million (this latter limit will presumably not present any problems for the overwhelming majority of enterprises).

In addition, the amount of the already known allowance related to the renovation of historic listed buildings will double. According to the regulation, two times the renovation cost increasing the value of buildings or structures protected under the national scheme of historical monuments or placed under local protection can be claimed as a deductible at taxpayers whose books include tangible assets. The value of the claimed amount calculated with the valid tax rate cannot exceed the HUF equivalent of EUR 100 million. The upper limit related to pre-tax profit will not apply to this allowance, thus the decrease in the tax base may even result in a negative tax base (losses carried forward).

One precondition for the decrease is that the renovation or maintenance should not be the result of an obligation imposed by an authority. One other condition is that the competent heritage protection authority should issue a certificate about the proper implementation and amount of the renovation or maintenance, and the taxpayer should have it when submitting its corporate tax return (so it is not enough to obtain the certificate by the submission deadline if the enterprise submits its tax return to the tax authority earlier).

It is important that both deductibles can be claimed together in the same fiscal year for the same tangible asset, so a tax base decrease can be claimed at the same time for both maintenance and renovation work.

Definition of maintenance and renovation

Act C of 2000 on Accounting defines which activities fall into the category of maintenance and renovation work (despite this, it is very difficult even for professionals to decide what qualifies as maintenance and what counts as renovation). In the case of tangible assets, maintenance means the repair activity serving the continuous and smooth operation of the asset in use, which has to be performed for the purposes of proper use. Any planned preventive repair and periodic overhaul is considered maintenance work. As a result of these activities, wear and tear can be restored to a certain extent. By contrast, renovation takes place when the asset wears out even with the usual maintenance work, to an extent that would endanger its proper usage. In the case of assets, renovation aims to restore the original condition of the worn tangible asset; as a result of this, the life of the asset will be prolonged and its original technical condition and capacity will be nearly or fully restored. Thus enterprises subsequently realise economic benefits from the additional expenses of renovations. Performing missed and accumulated maintenance work together at a later date does not qualify as renovation.

Allowance for taxpayers financing renovations

Instead of the taxpayer carrying the tangible assets, a taxpayer qualifying as a related party and directly providing the funds for the renovation, in part or in full, can also utilise the tax base deduction option. Claiming this tax base decrease is subject to the financier possessing a written declaration from the taxpayer (carrying the tangible asset in its books) on its waiver of the allowance, by the time the corporate tax return for the fiscal year is submitted.

On this basis it may be worth it for enterprises to postpone any maintenance or renovation work planned for this type of tangible assets until the 2017 fiscal year, since this way they can utilise significant tax base allowances while their costs remain eligible for deduction under the Corporate Tax Act.

Some final thoughts

The allowance related to the renovation and maintenance of historic listed buildings and structures can be a good opportunity to decrease corporate tax bases, but it is only worth claiming it if you are guaranteed to fulfil all of the statutory conditions; otherwise, the tax authority may establish a tax shortfall and tax penalty during a potential inspection. It is important that construction and assembly works related to monuments can also be significant in respect of other tax types. For example, for VAT purposes it is worth examining whether invoices for the work should be issued according to the rules of direct taxation or reverse charging. In terms of tax planning, it is also worth taking into account the amendments to Act CXVII of 1995 on Personal Income Tax as valid from 16 June 2016, which state that any revenues obtained by private individuals in the form of free renovation or maintenance of a monument they own, as performed by a third party – particularly a partnership within its sphere of interest – shall be exempt from personal income tax.

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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WTS Klient Group • Tamás Gyányi, Partner
1143 Budapest • Stefánia út 101-103. • Hungary
Telephone: +36 1 887 3700 • Fax: +36 1 887 3799
tamas.gyanyi@klient.hu • www.klient.hu