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2018 tax law amendments

Besides the tax reductions in many areas, the New Year has also brought a new Act on Tax Administration Rules and a new Act on Rules of Taxation for businesses. Now that everyone has closed their 2017 accounting records, it is worth taking a look at the major tax changes for 2018 again and considering what this year has in stall for your business.

Value added tax

- **Transactions subject to preferential tax rates.** From 1 January 2018 the VAT on internet access services and the VAT on fish for human consumption will be reduced in Hungary to 5% from 18% and 27% respectively. The VAT rate of food and homemade non-alcoholic beverages sold at restaurants will also be 5%. The range of instruments subject to preferential tax rates and helping the blind and the visually impaired continues to expand. The VAT on Braille printers and Braille displays is also to change to 5%, in addition to that of Braille typewriters.

- **Adoption of procedural rules from valid Act on Rules of Taxation.** The amendment adopts rules on reporting and data reporting from the Act on Rules of Taxation: selecting or cancelling VAT-exempt status, selecting or cancelling cash accounting, reporting related to EU tax numbers, data reporting related to certain product sales subject to reverse charges, summary statements (basis for A60 form), domestic summary reporting, etc.

- **Online data reporting obligation.** Online invoice data reporting will start from 1 July 2018. This is important because if the data reporting obligation is not met, is late, incomplete, incorrect or contains false information, the ceiling on the default penalty is the product of the number of affected invoices or documents qualifying as invoices and the maximum penalty rate otherwise prescribed for the taxpayer by the general penalty rules (e.g. HUF 500,000 – approx. EUR 1,600 – for companies).

GET THE DATA-EXPORT FUNCTION OF YOUR INVOICING SOFTWARE CHECKED!

One important precondition for successful online data provision is that the **data-export function of the invoicing software** works well and includes detailed data structure specified by the related legislation. (Our earlier article includes further details about data export function.)

Based on our experience, problems can arise in case of using an accounting software which is not developed in Hungary due to either (i) the data-export function that was not created properly through programming or (ii) data structure and data content extracted from the invoicing system through data export is incomplete. From 1 July 2018 this may cause the failure of the launch of the online data provision/proper operation of the online data provision.

To avoid a fine of up to HUF 500,000 (approx. EUR 1,600) per invoice from July 2018 if your data reporting is incorrect, **our expert team is on hand to check your invoicing software**. During a review similarly to tax inspection, we perform the following tasks:

- reviewing the existence of required documents in connection with the function of data export
- review of the continuity of sequential numbering
- testing xml files in the given month
- review the data-content of xml files and related invoices randomly chosen

At the end of the work we draw your attention to the existing insufficiencies and make suggestion in order to eliminate failures.

Should you need any further information regarding the above review or a fee quote, please do not hesitate to contact us.

Feel free to **contact Tamás Gyányi, the partner of WTS Klient Hungary tax advisory services** as follows:

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Corporate tax

- **Claiming development tax allowances.** The regulation on development tax allowances will be amended from next year in that provided other conditions are met, the taxpayer can claim a tax allowance on investment projects whose present value is at least HUF 6 billion (approx. EUR 19 Mio.), or an investment project creating jobs with a present value of at least HUF 3 billion (approx. EUR 9,6 Mio.), if such are commissioned and then operated according to the government decree.

- **Reported shares.** The 10% participation threshold has been removed from the law from 2018, which means regardless of the participation size, shares will have to be reported and the corporate tax base relief related to reported shares will be applicable.

- **Building rental apartments for employees.** Subject to certain conditions, tax bases can be reduced with the cost of rental apartments built for employees, in the fiscal year when the investment project was completed.

Personal income tax

- **PIT Act to be supplemented.** The bill adopts several procedural provisions from the Act on Rules of Taxation into the PIT Act. From 2018, the Act will be supplemented with two new appendices which contain special rules on the taxation of certain income of foreign people, and the system of taxation for those paying itemised flat-rate tax.

- **Cancellation of tax assessments by employers.** Employers cannot even prepare taxpayers' tax returns for 2017.

- **Range of those eligible for e-PIT to be expanded.** The tax authority will prepare draft tax returns for both primary agricultural producers and private individuals subject to VAT for 2017.

- **Hospitality activity (Airbnb).** The favourable itemised flat-rate tax can be opted for even if those involved in this activity offer such a service for up to three properties instead of the one currently allowed.

- **Good news for families with two children.** The amount of the family (tax base) allowance will increase from the current HUF 100,000 (approx. EUR 320) to HUF 116,670 (approx. EUR 375) per dependant and allowance month.

Social contribution tax

- **The tax rate is to fall to 19.5%.** The social contribution tax rate will decrease from the current 22% to 19.5% from 1 January 2018.

Health care contribution

- **Allowance affecting income from letting property.** The health care contribution payment liability for income derived from letting property will be abolished.

- **The health care contribution rate will decrease parallel to the social contribution tax.** The health care contribution rate will fall from 22% to 19.5% in certain cases, so this fall could be relevant for companies operating fringe benefit systems for example.

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"By 2022 Hungary could have one of the best tax systems in the region."

Tamás Gyányi, WTS Klient Hungary partner

Source: inforadio.hu

Have you heard?

"Employers' tax burdens may decrease by another 2 percentage points every year for 4 years from 2019, if the rise in real wages reaches an annual 6 percent" – said Tamás Gyányi, reflecting on a statement from the Ministry for National Economy. The tax consultancy partner of WTS Klient Hungary discussed the key changes already known for 2018 on InfoRadio on the evening of 4 January.

Listen to the conversation at this link!

Please note that the conversation is available only in Hungarian.

Simplified contribution to public revenues

- **The rate of the simplified contribution to public revenues paid by the paying agent is to decrease.** The current rate of 20% will fall to 19.5%.

Customs

- **The Customs Act has been revised.** A new Customs Act will replace Act XIII of 2016 on the implementation of the EU's customs law. Procedural rules will be collected in one place, so the current three-level system of rules will become a two-level system (EU regulations, Customs Act). (The rules of Act CXL of 2004 on the General Rules of Public Administration Procedures and Services currently have to be observed as well.)

Tax system

- **Legal relationships cannot be qualified differently.** The guarantee rule is to be codified again. When checking the subjects of a legal relationship affecting tax liabilities, the tax authority cannot qualify an already inspected and qualified legal relationship differently for different taxpayers, i.e. they must take into account the findings for one subject of the legal relationship ex officio when checking any other subject of the legal relationship.

- **More transparent types of inspections.** The customer-focused approach as well as the more efficient, simpler and more transparent processes repeatedly emphasised by the NAV are now seen in the law too. One sign of this is that the law only mentions 2 types of inspection, as opposed to the 7 types currently stated. One of these is the legal compliance review, where the tax authority reviews the taxpayer's administrative tax obligations. The other is a tax inspection, where compliance with the rules related to tax assessment and tax return obligations can be the subject of the review.

- **Limitation of inspection deadline.** With the 365-day deadline valid from next year, legislators want to limit the often unjustifiably prolonged inspections. Inspections cannot exceed this period even if the inspection is extended in justified cases. Except for group taxpayers and VAT-registered taxpayers, the upper limit of 180 days for the inspection period applies to taxpayers not obliged to have their companies registered, or to taxpayers qualified as reliable.

- **Limitations regarding appeals.** The option to appeal will naturally remain in force. This means taxpayers can respond to authority rulings and resolutions substantively. One change compared to the previous rules is that no new facts can be brought up, or no new evidence can be presented if the taxpayer was aware of these before the first-instance decision, but chose not to submit them, despite requests from the tax authority. In light of this, it is recommended to proceed very carefully as well as to collect and disclose the most information possible during the first-instance procedure.

- **Mentoring of start-up companies.** The NAV provides technical assistance for start-up companies during the first 6 months of their operations, and within 30 days of issuing their tax number it provides free information on their tax liabilities both verbally and in writing. Participation in mentoring is voluntary.

- **Disclosure of reliable taxpayers.** The NAV discloses the name and tax number of the taxpayers qualified as reliable on its website.

- **Late payment interest.** According to the new Act on Rules of Taxation, the NAV will require penalties to reach HUF 5,000 – approx. EUR 16 (as opposed to the current limit of HUF 2,000 – approx. EUR 6). The calculation method will not change from 2018, thus it will continue to be one 365th of double the central bank's key rate of interest for each calendar day. (The draft talked about the key rate plus 5%.)

- **Tax penalties.** The new Act on Rules of Taxation falls in line with current figures in terms of tax penalties. Consequently, its basic rate is 50% of the tax shortfall or the unjustified claim. If concealed revenues, false accounting records, books or data are behind the tax shortfall, the penalty can still reach 200%. One new feature is if the taxpayer waives its right of appeal against the first-instance decision, and pays the tax difference by the prescribed deadline, it will be exempt from having to pay 50% of the levied tax penalty.

- **Default penalties.** The general rates will not change i.e. a penalty of up to HUF 200,000 (approx. EUR 640) can be levied on a private individual, while other taxpayers can be charged up to HUF 500,000 (approx. EUR 1,600). However, the size of the penalty rises significantly if someone without a tax number performs an activity that is subject to a tax number or is taxable. In such cases, the penalty can amount up to HUF 1 million (approx. EUR 3,200).

- **Exemption from legal consequences.** No legal consequence can be established to the detriment of a taxpayer if the latter acted according to information disclosed on a page of the tax authority's website created for this purpose. Of course, the detected tax shortfall has to be paid in such cases as well.

- **Information on the evasion of tax liabilities.** If the tax authority detects a connection, fact or circumstance during an inspection that affects several taxpayers interdependently, and evasion of the provisions included in the tax laws can be presumed, they can inform the affected parties about this.

This WTS information does not constitute advice and it serves only to provide general information about selected topics.

Any information contained herein shall thus not be considered exhaustive, and nor may it be relied upon instead of advisory services in individual cases. We accept no liability for the accuracy of the content.

Should you have any questions regarding the above or any other professional issues, please do not hesitate to get in touch with your WTS advisor or use any of the contact details below.

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