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Tax amendments in 2019

The Hungarian Government presented its new tax package and a draft law on the social contribution tax on 19 June 2018. According to the general reasoning, one of the major underlying drivers behind the changes is to ensure legal harmonisation and reduce administrative burdens in Hungary, including removing the favourable taxation on many fringe benefits and integrating the health care contribution into the social contribution tax. Below we have pulled together some, but not all, of the main proposed changes.

Act on Rules of Taxation

- **Tax authority obligation to pay interest.** The proposal would oblige the tax authority to pay interest if [its decision was unlawful](#) and a reimbursement is due to the taxpayer. This rule was already included in the previous Act on Rules of Taxation.
- **Rate of late payment interest would increase.** From 1 January 2019, there would be an increase in the late payment interest from double the base interest rate of the central bank (1.8%) to the base interest rate of the central bank plus 5 percentage points (5.9%). The rate of [self-revision interest](#) remains unchanged.

Personal income tax

→ Transformation of fringe benefit system

- **SZÉP card, as the only fringe benefit.** From 1 January 2019, the three sub-accounts of the SZÉP cards would remain the only way to provide fringe benefits at a reduced tax rate. The good news, however, is that under the proposal the factor of 1.18 would not apply when determining the tax base for fringe benefits. This factor remains applicable for other benefits being taxable at the employer.
- **End of tax-free benefits.** The proposal would remove the reduced tax rate for [fringe benefits provided in cash](#) (up to HUF 100,000 – roughly EUR 300) and the tax-exemption of the employer's assistance for housing purposes and the housing allowance to facilitate mobility.
- **The scope of other benefits being taxable at the employer would narrow.** The possibility of employers giving any type of fringe benefit to employees subject to a higher tax rate for the payer, based on an internal policy or provided equally and in the same form to all employees, would thus also be removed. Paying amounts to voluntary insurance

funds for targeted services would remain an optional other benefit taxable at the employer, as well as benefits closely related to work, such as using company phones for private purposes, meals or other services related to official or business trips, products and services provided as business gifts or for entertainment purposes.

- **Option to submit declarations via the government portal.** The proposal would enable taxpayers to submit declarations required to assess tax advances electronically via the government portal – to claim family allowance, newlywed allowance and personal allowances and take relevant costs into account.
- **NAV can prepare draft tax returns for the self-employed.** The deadline to submit the tax return would be 20 May following the fiscal year (also for the 2018 fiscal year).

Corporate tax

- **Reported shares.** Based on the proposal, the restriction under which taxpayers must report original shares to be able to report additional shares would be partly phased out from 1 January 2019. As a result, reporting the newly acquired shares will trigger the right to claim the allowance even if the previous share was not reported.
- **Tax allowances for investments improving energy efficiency.** Based on the reasoning of the draft law, the conditions for granting tax allowances for investments improving energy efficiency would become more favourable.
- **Amount eligible for investments may increase.** The proposal is to raise the maximum amount of the development reserve from HUF 500 million to HUF 10 billion (roughly from EUR 1.5 million to EUR 30 million) from 1 January 2019.
- **Option to divide tax-base reduction related to R&D services.** According to the proposed modification regarding activities

and services provided in direct relation to research and development, if the result of such activities is integrated into the R&D, then instead of the service provider claiming the tax base deductible this can also be divided between the client and the service provider, based on a written declaration from the parties affected.

- **Costs allocated to operation of day-care centres at work places can be deemed eligible costs when assessing tax bases.** The concept of a day-care centre at the workplace would be introduced within the context of corporate tax at the same time. A day-care centre at the workplace is an institution providing pre-school education, as a public service, where based on the annual average number of children at least one of the parents of 80% of the children is employed by the taxpayer.

Social contribution tax

- **Integration of health care contribution.** According to the draft law, the health care contribution would be removed and integrated into the social contribution tax. The new tax will be included in a new, separate law.
- **Determining tax base of new tax.** Income included in the tax base are identical with the income subject to the social contribution tax included in Chapter IX of Act CLVI of 2011 on the Amendment of Certain Tax Laws and Related Acts, and to the health care contribution included in Act LXVI of 1998 on the Health-care Contribution.
- **Calculating upper threshold.** The previous rule on the calculation of the upper threshold is to be amended as well. Employees who earn 24 times the minimum wage on a yearly basis do not have to pay social contribution tax on dividends or income from exchange gains.
- **New, uniform tax rate.** The tax rate is the current rate of the social contribution tax, i.e. 19.5%. (The 14% health care contribution would be removed, which was previously imposed on dividends for instance).

Value added tax

- **Tax imposed on vouchers.** The VAT Act is amended with rules on the transfer of vouchers, which primarily differentiates between single-purpose and multi-purpose vouchers regarding tax payment liability. The aim is to levy the tax upon the issuance of the voucher wherever possible.
- **Simplification related to remote services.** If a taxpayer is only settled in one country within the EU, then below the defined threshold tax must be paid on remote services in the country where the taxpayer is settled, according to the local regulations. This simplification refers to remotely provided services provided to non-taxpayers settled in a different Member State from that of the taxpayer, if the aggregate amount of the consideration for the services without taxes

does not exceed EUR 10,000 or a corresponding amount in the national currency, either in the reporting year or in the previous year.

- **Standard 5% tax rate for milk types.** ESL and UHT milks would be included under the scope of the reduced 5% VAT rate.
- **Reverse charge.** Cereals and steel products will remain subject to reverse charging from 31 December 2018 as well according to the draft.

Local and other taxes

- **Centralising administration.** From 1 July 2019, the obligation to register and report changes at the tax authority of the local government at the seat of the company would cease, and be replaced with reporting from the state tax authority.
- **Public health product tax.** The taxation of alcoholic drinks will change within the public health product tax, all types of alcoholic drinks will be taxable in the future.
- **Accident tax.** The accident tax is to be removed, and the taxation of third-party motor liability insurance would be integrated into the insurance tax – as in the case of other insurance services – significantly reducing the rate of the tax.
- **Simplified entrepreneurial tax (EVA) will cease to exist.** According to the proposal, the EVA can be chosen for the 2019 fiscal year until 20 December 2018 by registering at the State Tax and Customs Authority, after which date it will no longer be possible to switch. Taxpayers who chose the EVA by 20 December 2018 may remain subject to this law.

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