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Brief summary of 2019 tax law amendments for decision-makers

On 13 November 2018 the Hungarian National Assembly approved the autumn tax package, so together with the summer tax package we can essentially consider the tax law amendments taking effect from 2019 complete. Below we highlight some of the more significant changes. Our professionals will be glad to help you with any questions you may have.

Value added tax

- **The sale of certain residential properties** will still incur 5% VAT provided the sale is to be concluded in the period from 1 January 2020 to 31 December 2023, and, if the construction is subject to a building permit, the final permit was valid on 1 November 2018, or the construction activity subject to simple notification pursuant to the Act on the Formation and Protection of the Built Environment was reported by no later than 1 November 2018.

- The threshold for choosing **VAT-exempt status** will be raised from HUF 8 million (roughly EUR 25,000) to HUF 12 million (roughly EUR 32,000).

- For cases where **leased passenger cars** are used for both business and private purposes, the law dictates a 50% deduction rate for the input VAT on the lease in order to reduce administration burdens. If a taxpayer does not want to apply the 50% deduction rate, the deduction rate can be altered based on duly substantiated documentation, in line with the extent the car is used or utilised for the business activity eligible for the tax deduction.

- The rules on the transfer of **vouchers** differentiate between single-purpose and multi-purpose vouchers in terms of tax payment liability. The aim is to levy the tax upon the issuance of the voucher wherever possible.

- With regard to the exercise of **tax deduction rights** it is important to note that taxpayers are entitled to include the amount of deductible input tax (previously not refunded) – incurred before the registration of the taxpayer in the national registry – in the tax assessment period that includes the registration date.

- **The standardisation of the 5% tax rate for milk types** will include ESL and UHT milk types under the scope of the reduced 5% VAT rate too.

- **Cereals and steel products** will remain subject to the reverse charge mechanism from 31 December 2018 as well.

Corporate tax

- **Corporate tax groups allowed**. One requirement for establishing a corporate tax group is to have a related company relationship between the taxpayers based on at least 75% of the voting rights. Corporate tax groups fulfil their tax liabilities through a designated member of the group registered at the Hungarian tax and customs authority as the group representative, under a specific group ID, and the group members exercise their taxpayer rights in the same way. Requests for the registration of corporate tax groups can be submitted from the first day of the penultimate month of the fiscal year until the 20th day of that month. Taxpayers lose this right after the deadline expires. Requests may first be submitted between 1 and 15 January 2019. No application for an extension shall be accepted upon failure to meet this deadline. If the request is approved, the corporate tax group will be established as of 1 January 2019.

- The maximum amount of a **development reserve** is to be raised from HUF 500 million (roughly EUR 1.5 million) to HUF 10 billion (roughly EUR 30 million).

- Provisions on thin capitalisation are replaced by the **new rule on limiting interest deductions**. Under the rule, the tax base is increased by the portion of net financing costs that exceeds 30% or HUF 939,810,000 (EUR 3 million) of fiscal-year earnings before interest, taxes, depreciation and amortisation (EBITDA), whichever is higher. At the same time, the amount of the tax-base increase is reduced, up to no more than the amount of the increase, by any unused interest deduction that accrued in previous fiscal years. Contracts for financial costs concluded before 17 June 2016 may not be subject to the new rule (case-by-case examinations necessary).

- Costs allocated to the operation of **day-care centres at work places** shall be deemed eligible costs when assessing tax bases.

- The definition of **controlled foreign company** and the related tax base adjustment items are to undergo significant changes.

Personal income tax

- The **fringe benefit system** is to be radically transformed, the tax-exempt status or reduced tax rate of the benefits granted most often will be abolished.

- **Which benefits will remain under favourable conditions?**

  - SZÉP card (fringe benefit: tax burden of 34.5%)
  - private use of company phone
  - meals on official business trips or other services (not income)
  - products or services provided for entertainment purposes or as business gifts (other benefit: tax burden of 40.71%)
  - from 2019, small-value gifts may be provided once a year as opposed to the earlier rule of three occasions per year (other benefit: tax burden of 40.71%)

- Tickets to sports events / certain cultural events can be **provided tax-free** (ceiling for tax-exemption = amount of the minimum wage).

- The fee of (individual or group) **risk insurance concluded and paid by payers (employers) after 31 December 2018** is taxable (with due consideration of the reasoning of the Bill and of the one-year transitional provision applicable for risk insurance taken out before 1 January 2019).

- The amount of the **family (tax base) allowance** will increase from the current HUF 116,670 (roughly EUR 360) to HUF 133,330 (roughly EUR 410) per dependant and allowance month.

- The NAV can prepare draft tax returns **for the self-employed** too. The deadline for submitting the tax return is 20 May following the fiscal year (also for the 2018 fiscal year).

- **In the case of housing loans** the reduction in the interest rate does not have to be considered income (provided any loan granted in the four years before the disbursement does not exceed HUF 10 million (roughly EUR 30,000), but the condition of legitimate housing needs does not have to be met).

Social contribution tax

- The rate of the **social contribution tax** remains at 19.5%.

Tamás Gyányi, partner of WTS Klient Hungary talked about this topic on InfoRadio.

Listen to the conversation at this link:

wtsklient.hu/2018/11/22/adomentes-juttatasok/
Please note that the conversation is available only in Hungarian.

TAX ADVISORY

If you would like more detailed information on how the 2019 tax law amendments will affect your company, please get in touch with the tax experts at WTS Klient Hungary.

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- The **health care contribution** will be abolished and integrated into the social contribution tax. The social contribution tax will be set out in a separate law (Act LII of 2018 on Social Contribution Tax).

- The previous rule on the **calculation of the upper threshold** is changing. Employees who earn 2 times the minimum wage on a monthly basis do not have to pay social contribution tax on dividends or income from exchange gains. (The health care contribution is currently capped at HUF 450,000 – roughly EUR 1,400.)

Act on Rules of Taxation

- There will be an increase in **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 five percentage points (5.9%).

- The maximum default penalty payable upon violating **the rules for topping up tax advances** will be halved.

- The NAV will conduct a **mandatory tax inspection** at business entities whose net sales revenue totals HUF 60 billion (roughly EUR 185 million) in two consecutive years but still do not generate a profit. (This shall not apply for the first four financial years of companies established without a legal predecessor.)

Innovation contribution

- Determination of those obliged to pay **innovation contributions** will change from 1 January 2019; several companies previously exempted from paying contributions may now be obliged to pay innovation contribution.

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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