



Dear Readers,

Today is 31 May, which is not just the last day of spring. For us – as for the majority of accountants and tax advisers – it is an even more important date. Taxpayers whose financial year coincides with the calendar year had until today to prepare and submit their annual financial statements along with their local business tax and corporate tax returns, as well as pay their innovation contribution and any advertising tax – to mention just the most important ones. As you can read on page 3, this year by 31 May related companies also had to prepare transfer pricing documentation according to the new regulations for the first time.

We think we've earned the right to lean back a little, and enjoy the summer and the sun, which will finally come after all the rain and the huge workload. And the same goes for you. And to top it all, the announcement yesterday from the Minister of Finance means we can really celebrate the coming of Christmas too: the top-up obligation for corporate tax is to be abolished! Make sure to keep reading our news and we will have all the details shortly.

Andrea Potássy
partner

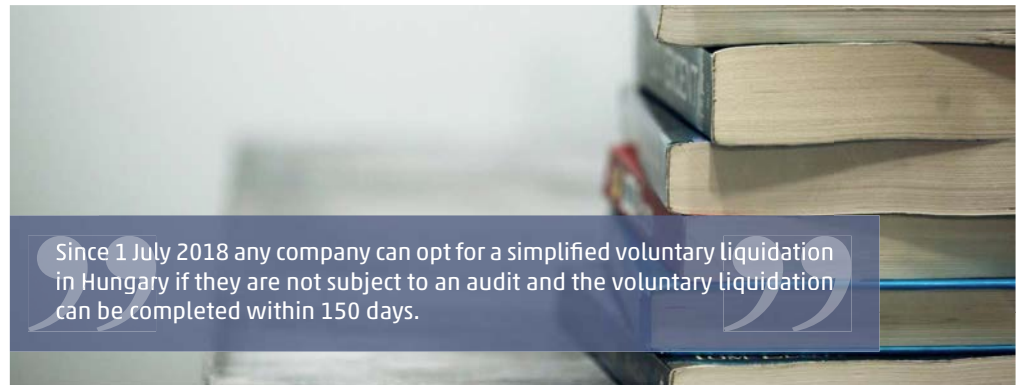
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Simplified voluntary liquidation

This option has been available for more companies since 1 July 2018

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As a result of the amendment of Act V of 2006 on Public Company Information, Company Registration and Winding-up Proceedings, since 1 July 2018 any company can opt for a simplified voluntary liquidation in Hungary, not only entities without legal personality, if they are not subject to an audit and the voluntary liquidation **can be completed within 150 days**. In light of the reduced and faster administration, our experience shows that more and more companies are making use of this opportunity.

continued on page 2



WTS Global: European Indirect Tax Firm of the Year in 2019

The hard work of the Indirect Tax team at WTS Global was recognised with the title of Indirect Tax Firm of the Year in 2019 at this year's European Tax Awards. The group has now been named the best of the best in this category for the third time in a row. This year, besides WTS Global being Indirect Tax Firm of the Year in 2019, four other WTS group members also received prestigious awards. [Click](#) for more details!

NAV must be notified

A **voluntary liquidation** – as in the case of a standard voluntary liquidation – commences upon the decision of the company owner specifying the **start date** of the simplified voluntary liquidation. The start date may not be earlier than the date of the owner's decision. In the event of a simplified voluntary liquidation, however, there is **no need to appoint a liquidator**, the senior executive performs this role.

The Hungarian Tax and Customs Authority (NAV) must be informed about the start of a simplified voluntary liquidation process within 15 days by submitting form T201T. It is recommended to attach the owner's decision on the simplified voluntary liquidation to the form. Though this is not mandatory, it can accelerate the administration. The NAV has 30 days to process the form and they inform the Court of Registration automatically about the start of the simplified voluntary liquidation. The Court of Registration arranges the publication of the notification regarding the simplified voluntary liquidation in the Company Gazette. Creditors have 40 days from the date of the publication to submit their claims.

Besides the NAV, the local government and the account-holding bank must also be informed about the initiation of the simplified voluntary liquidation. It is important to note that the bank account cannot be closed until the company is deregistered.

The report and tax returns on the termination of the activity must be prepared and submitted **within 30 days following the start** of the simplified voluntary liquidation.

Completing the simplified voluntary liquidation using document templates

The simplified voluntary liquidation may not be **completed** until the 40-day period provided for creditors to submit their claims has expired. Then the voluntary liquidation must be completed and

the reports and tax returns finalising the voluntary liquidation must be prepared and submitted **within 60 days**, but no later than within 150 days. The NAV must also be informed about the completion of the voluntary liquidation by submitting form T201T.

At the same time the company must notify the Court of Registration about the end of the simplified voluntary liquidation using **document templates** and submit the recommendation for the distribution of assets and the final voluntary liquidation decision.

Within 30 days of the notification about the completion of the procedure the NAV informs the Court of Registration if there are any reasons against deregistering the company. If not, the Court of Registration deregisters the company.

Accounting advisory

Broadening the possibility of conducting a simplified voluntary liquidation is primarily aimed at reducing the costs and administrative burdens related to voluntary liquidations. However experts are still needed to arrange the procedure itself and prepare the documents prescribed by law. Using the synergies within our group and in cooperation with our lawyers, the **accounting consultants of WTS Klient Hungary** will gladly help if you decide to opt for this procedure to terminate your company.

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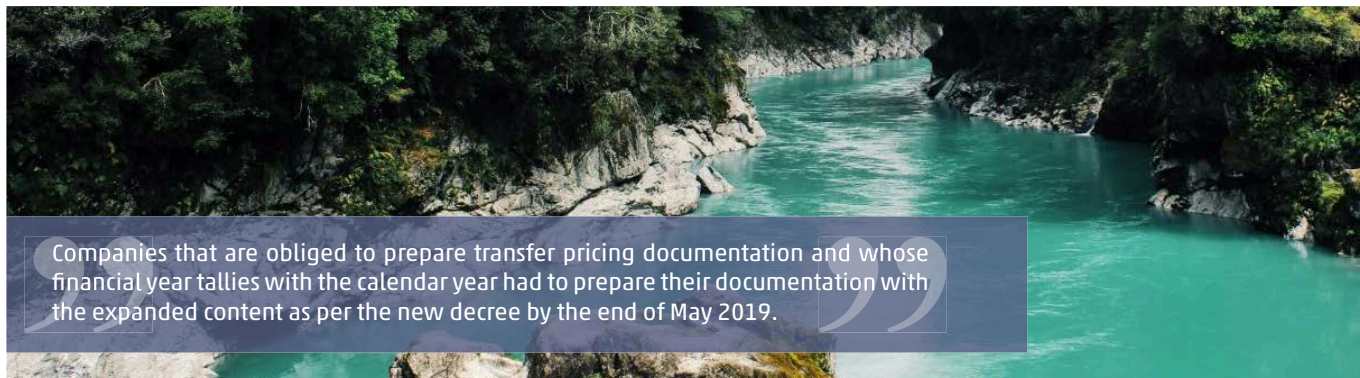
Latest publications

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- » [Strategic aspects of accounting in a foreign currency](#)
- » [Tips when planning a voluntary liquidation](#)

New transfer pricing documentation decree

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Companies that are obliged to prepare transfer pricing documentation and whose financial year tallies with the calendar year had to prepare their documentation with the expanded content as per the new decree by the end of May 2019.

31 May is a significant date for both accountants and tax consultants. Hungarian companies with a financial year of the calendar year have to submit their annual financial statements and corporate tax returns by this deadline. **For related companies, the date for submitting their corporate tax return is also the date for preparing transfer pricing documents.** From this perspective, the end of May 2019 is more significant than ever before. This is because Hungarian enterprises with a financial year of the calendar year had to prepare their transfer pricing documentation according to the new transfer pricing documentation decree for the first time. Below we discuss the most important aspects of the [new transfer pricing regulation](#).

What does the new transfer pricing regulation mean, and why was it necessary?

Decree No. 32/2017 of the Hungarian Ministry of National Economy was promulgated on 18 October 2017. It is [referred to](#) as the new transfer pricing documentation decree, and it replaced Decree No. 22/2009 of the Ministry of Finance. The new regulation was necessary to achieve the **goals included in the BEPS action plan**, namely, to curb the aggressive tax planning and tax evasion efforts of multinational enterprises. Bearing these goals in mind, after implementing the [rules on country-by-country reporting](#), Hungary incorporated the requirements of the master and local files into its rules as part of the new transfer pricing documentation decree.

From when should the rules of the new transfer pricing documentation decree be applied?

The requirements of the new transfer pricing documentation decree must be applied for the first time in relation to documentation for tax liabilities for fiscal years beginning in 2018. Essentially, this means that companies that are obliged to pre-

pare transfer pricing documentation and whose financial year tallies with the calendar year had to **prepare their documentation with the expanded content as per the new decree by the end of May 2019.**

What are the most important changes?

One of the most important changes is that from 2018 the new transfer pricing documentation decree terminated the option to prepare independent documentation, and made it mandatory to prepare two separate documents, the master file and the local file.

What is the master file, what does it have to contain, and what should we pay attention to when preparing it?

The **master file** basically contains detailed information for the entire company group. So among other things, this document must present the supply chain for the group's five largest products and services and the products and services with a turnover exceeding 5% of the group's turnover, broken down by sales revenue, a brief description of intragroup services that qualify as significant, and a description of intragroup financing, to mention but a few of the many mandatory elements.

It is also important to mention for the master file that the **Hungarian legislation follows the requirements of the OECD guidelines on the mandatory elements of the master file**. This means that, given compliance with the OECD rules, the master files prepared at the group's headquarters most often contain all the information required by Hungarian legislation. However, caution is advised and you are better to check the documentation prepared by your parent company, since even one missing element can provide an excellent reason for the tax authority to levy a default penalty.

Have the contents of the local file changed?

The new transfer pricing documentation decree **requires more data in the local file too**. In addition to the current content, when presenting the taxpayer you need to show the management structure, an organisational diagram, and the names of the individuals who report to the management. Additionally, the most

You can listen to the radio interview about this topic by clicking here:



wtsklient.hu/2019/05/02/uj-transzferar-szabalyozas/
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important competitors of the enterprise have to be listed and the local file has to include a concise description of how the financial data used when applying the method to establish arm's length prices can be linked to the data included in the taxpayer's annual financial statements.

When should the transfer pricing documentation be prepared by?

Similar to the previous rule, the local file must be compiled by the submission date of the corporate tax return, but it does not have to be submitted to the tax authority. The new transfer pricing documentation decree enables **the local file to be considered the documentation for a period of 12 months from the last day of the taxpayer's fiscal year** (also bearing the parent company's deadlines in mind), until the master file is available. However, it is important that this rule **does not apply to cases where the parent company is Hungarian** and it prepares the master file, or when the foreign parent company does not prepare a master file, for whatever reason, and thus the Hungarian related company has to prepare it instead. In this case, the master file has to be completed by the submission date of the Hungarian corporate tax return.

What should you look out for in respect of intragroup services of low added value?

The new transfer pricing documentation decree retained the option for related companies to prepare **simplified transfer pricing documentation** for certain intragroup services. Both the range of services and the value and percentage limits defined under the conditions remained unchanged. However, the upper limit of the applicable mark-up changed from 10% to 7%, while the lower limit remained at 3%.

Ability to make modifications

One important and favourable change in the new transfer pricing regulation is that within the limitation period and until the start of any tax authority inspection, taxpayers can modify their transfer pricing documentation if they discover that they did not prepare the documentation according to the legal regulations, or if they detected an error affecting the tax base, the tax, the arm's length price and the arm's length price range (profitability) in the documentation. The **modifying document** must designate the documentation affected by the modification along with the

Transfer pricing consulting

The [transfer pricing consultants](#) of WTS Klient Hungary have considerable experience in preparing these documents and in successfully supporting tax authority inspections, including, among others, industry knowledge on how to manage and support transactions of suppliers in the automobile sector and their tax inspections. As a member of WTS Global's transfer pricing advisory team, we offer solutions for all kinds of transfer pricing problems at international level. Please do not hesitate to get in touch.

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modification and its date. The modification has to be performed according to the rules valid as of the original due date of the documentation, but no modification may be made if the taxpayer lawfully opted for one of the possibilities in the decree, and would change this with the modification. In practice this means, for example, that the selected method to define the arm's length price cannot be changed with a self-revision.

What did not change

The size of the penalty for incomplete documentation will not change in the case of transfer pricing documentation prepared for 2018. It is still very high, i.e. **it can amount to HUF 2 million (roughly EUR 6,160) per incomplete document, and as much as HUF 4 million (roughly EUR 12,320) in the case of a repeated failure to comply with the laws.**

You do not have to prepare documentation on product and service sales recharged without a mark-up, provided that you transacted with an independent party. However, it is important that if the re-charging is carried out for several related parties, the taxpayer will only be exempted from the documentation obligation as per the new transfer pricing documentation decree if it is substantiated that the distribution method applied – with due consideration of the facts and conditions characteristic of the particular transaction – complies with the arm's length price principle.

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- » VAT registration
- » preparation of transfer pricing documentation

Languages

Hungarian, German, English

Latest publications

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- » [Product fee warehouse – product fee payment liability can be avoided](#)

News on supporting spectator team sports with corporate tax allocations

Hungarian government raises ceiling of allocated amount to previous year's level again

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The government wants to shift the focus from constructing sport facilities to covering their operating costs.

In December 2018 the Hungarian government limited the annual amount for supporting spectator team sports with corporate tax allocations to HUF 50 billion (roughly EUR 154 million) in a decree, then decided to increase that amount back to HUF 125 billion (roughly EUR 324 million) in March 2019. What consequences will this have? We take a look in this article.

According to Government Decree 318/2018 the amount for supporting spectator team sports with corporate tax allocations, namely the overall approved sum of support to be granted for sports development programmes in the funding period of 2019/2020, shall not exceed HUF 50 billion. Hungarian sport associations of [spectator team sports](#) had until 15 January to submit their development programme proposals and the requested funding for them to the Ministry of Human Capacities. In line with the same Government Decree, the government would have had to notify the sports associations about the allocation of the HUF 50 billion by 25 February 2019. By now the associations would have had to publish these amounts on their websites too.

Supporting spectator team sports with corporate tax allocations now possible up to last year's amount again

At the beginning of February the Minister of the Prime Minister's Office announced at a government briefing that the HUF 50 billion limit will be raised to **HUF 125 billion**. The amending decree number 39/2019 was published on 7 March, breaking down the HUF 124.9 billion into HUF 44.2 billion (roughly EUR 136 million) for investment and HUF 80.7 billion (roughly EUR 249 million) for operational purposes.

This way, the ceiling for corporate tax allocations has risen to last year's level, but the breakdown indicates that this time the **government** wants to shift the **focus** from constructing sport facilities to **covering their operating costs**. This is also evident from the fact that from 2019 onwards, [corporate tax allocations](#) can be used to finance operating costs too. It remains to be seen though how long it will take to realise the sport investments of around HUF 300 billion (roughly EUR 926 million) mentioned by the Prime Minister, which have already been granted, but not yet approved

due to the lack of sponsors, bearing in mind this year's limit of HUF 44 billion (roughly EUR 136 million) and the fact that further investment proposals were submitted by 30 April 2019.

Tighter control of use of funds still in place

The Hungarian decree mentioned above and promulgated last year on supporting spectator team sports with corporate tax allocations prescribed **stricter control mechanisms for the use of funds**, which are still in place. Pursuant to Section 13 "if a body controlling the use of funds supporting spectator team sports finds in the accounts or during an on-site inspection that invoices to be accounted on specific grounds during the approved sport development programme or other credible accounting documents are not in harmony with the programme element supporting the professional realisation of the approved sports development programme as per the sponsor's memorandum of understanding, with due consideration of the estimated market value of the

continued on page 6

Tax consulting

The amendments above allow us to conclude that 2019 will be an exciting year too as regards supporting spectator team sports with corporate tax allocations. This year it is even more advisable for Hungarian companies to decide in time whether they wish to allocate part of their corporate tax to support spectator team sports, and save somewhat more than 5% of their corporate tax in the form of a tax credit as a result. If yes, [the tax adviser team of WTS Klient Hungary](#) is happy to help navigate through the detailed rules. Please feel free to contact our colleagues.

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items defined based on the benchmark system for the given sport that can be accounted on the respective grounds, the control body

- can request a detailed tax inspection from the Hungarian tax authority with regard to the sponsor and the mediator, and **exclude the sponsor**, and
- **may ban the beneficiary from the system of spectator team sport allocations** if they are deemed to have participated in bad faith."

You can listen to the radio interview about this topic by clicking here:



wtsklient.hu/2019/01/24/tao-tamogatas/

Please note that the conversation is available only in Hungarian.

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Languages

Hungarian, German, English

Latest publications

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- » [Busy autumn ahead for companies supporting spectator team sports](#)
- » [Proposals to revise tax regime in Hungary](#)

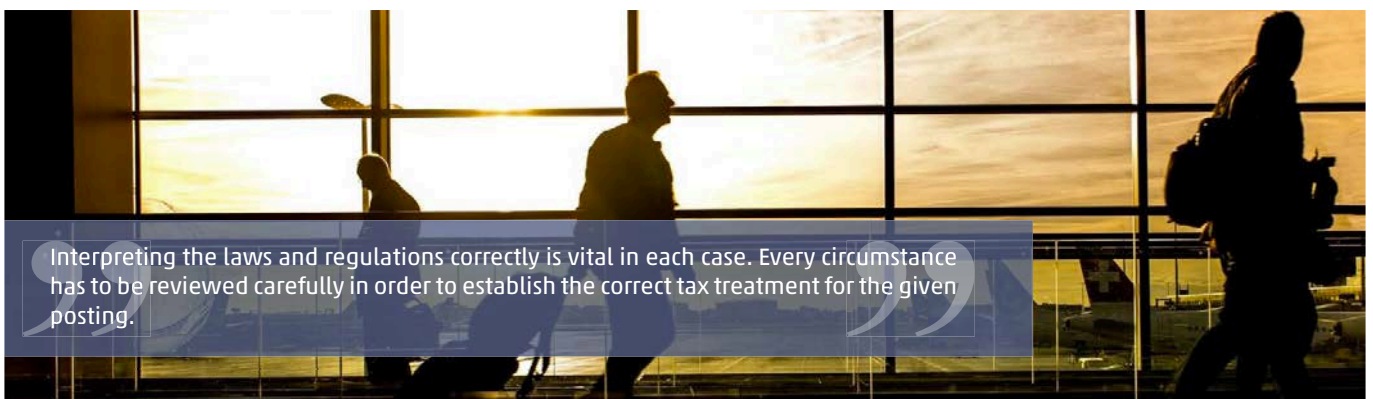


Tax risks of foreign postings

It is important to review and treat each posting individually

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The tax risks of foreign postings primarily stem from a lack of knowledge about the relevant legal regulations, or interpreting them incorrectly. However, this does not protect anybody from potential penalties in Hungary. Many of you have no doubt heard

tax inspectors say that **not knowing the law does not exempt you** from complying with your obligations and from related penalties. In this article we take a look at what the most typical risks are.

A posted employee is coming – why can the NAV impose a fine?

To map the tax risks of foreign postings, first we should check what kind of mistakes we can make in a case that appears simple when we accept a posted employee. Experience shows that even companies that accept a significant number of posted employees can face problems if the **HR department of the host company** or its tax team generalises, and treats all – otherwise different – postings in the same way. **Conventions for the avoidance of double taxation are largely similar, but** it matters here whether we accept a posted employee from France or Germany since the two conventions **contain somewhat different rules** for determining the country of taxation. All of this can have a serious impact on the proper assessment of taxation.

The situation is rendered even more difficult by the fact that for **employees moving within an international group, the contracting conditions underlying the posting are also very varied**. By default, an employee sent by a foreign group to Hungary will remain employed by the foreign company and receive their salary from abroad; their work in Hungary can be considered temporary, and its nature can vary a lot (specific job, project implementation, training, exchange of experience, etc.).

Our experience shows that of all the tax risks of foreign postings, **the following errors are the most frequent** in connection with posted employees arriving in Hungary:

- failure to report the new posted employee (default penalty)
- failure to request a Hungarian tax number in the event of an incorrect interpretation (default penalty)
- lack of Hungarian taxation due to incorrect interpretation of the specific rules of the convention (tax shortfall and tax penalty)
- due to the incorrect determination of **residence**, failure to report certain types of income (tax shortfall, tax penalty) or unnecessary double taxation
- correct tax assessment procedure, but Hungarian tax advances not paid on time (default interest)
- failure to comply with Hungarian deadline for the submission of tax returns, failure to submit a verification request or omitting to submit a Hungarian tax return due to the incorrect interpretation of the rules (default penalty)
- incorrect establishment of ratios in the case of tax payment liabilities arising in both countries affected (tax shortfall, tax penalty)
- incorrect consideration of tax allowances (too much, or potentially not using tax allowance up to full amount)
- for employees posted from a third country to Hungary, neglecting the Hungarian tax offsetting rules (90% rule; risk of double taxation)

You can listen to the radio interview about this topic by clicking here:



wtsklient.hu/2019/04/11/kikuldottek-szja-bevallasi-tervezete/
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- in the case of postings subject to EU coordination regulations, a missing A1 form (double contribution payment, risk of Hungarian social contribution tax and contribution shortfall, with related default penalties)
- risk of incorrect tax rating of cost reimbursements related to posting (incorrect treatment of home rent, car rent, meals and hotel costs)

It is important to emphasise that the above list does not contain all the tax risks of foreign postings, and it cannot be applied for all posting situations.

Posted employee leaves for abroad – what can cause problems here?

Selfishly, we only reviewed the first point, employees posted to Hungary, from the perspective of Hungarian **tax inspections**. However, tax risk factors relevant for the posting country may apply in these cases too. **For employees posted from Hungary** we can say that the stakes rise by a notch since the **tax authority of the host country also comes into the picture**, and every country has its creative tax inspectors (in their defence, we should add that there are creative taxpayers as well).

The tax risks listed in connection with employees posted to Hungary are also tax risks of foreign postings from Hungary, and a **thorough assessment should be conducted to decide which country has a right to levy taxes on what types of income** in light of Hungarian taxation and the convention for the avoidance of double taxation, and, in the case of contributions, based on the EU coordination regulations, social treaties and local laws and regulations.

The most frequent problems may include:

- work performed while the A1 form is missing (foreign contribution risk)
- with an A1 form available, it is discovered that the actual employer is the host party (foreign contribution risk)
- in the case of a Hungarian contribution payment liability, the Hungarian contribution base is determined incorrectly (contribution and social contribution tax base too low)
- the posting is only a quasi-posting, it actually satisfies personal needs (tax treatment of accommodation and travel costs related to posting)

Tax risks of foreign postings can result in serious sanctions

It should be noted that a [conference abroad lasting a few days](#), a multi-year foreign posting within an international group, a one-month language course of the managing director overseas or work abroad that can be qualified as a replacement posting all represent **different risk levels**.

Unfortunately, the mistakes made during postings, i.e. the tax risks of foreign postings, may result in serious sanctions. Interpreting the laws and regulations correctly is vital in each case, and we have to agree with the specification so often formulated in the positions of the National Tax and Customs Administration that **every circumstance has to be reviewed carefully in order to establish the correct tax treatment for the given transaction** (in our case, the posting).

Expatriate taxation consulting

The team of WTS Klient Hungary has special expertise regarding the taxation and social security payment liability of expats. Our objective is for the tax payment and tax return process to flow as smoothly and flawlessly as possible for the posted employees, despite its complexity. The tax risks of foreign postings can be minimised with our assistance, and there is a greater chance of avoiding sanctions.

[Please do not hesitate to get in touch.](#)

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- » tax litigations

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Languages

Hungarian, German, English



Health service contribution

What do you need to pay if you are not insured?

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In Hungary the rules of social security also apply to uninsured people. Act LXXX of 1997 (Social Security Act) lists and regulates a number of circumstances which help professionals decide when an individual has to pay the health service contribution, and when you can claim exemption from it.

In this article we summarise the key information on health service contribution payments and highlight what a resident natural person needs to do to become eligible for health services, even if they are not insured.



The main rule is to pay the health service contribution from the first day after the termination of entitlement to health services.

Who qualifies as insured, who qualifies as resident?

If a private individual pays the health service contribution, he or she becomes fully eligible to use the services provided by the health insurance system. **Insured Hungarian residents can become eligible for all (cash and in-kind) services.** Firstly, you need to examine whether the person has insurance status or not.

The criteria for insured status are set out in Section 5 of the Social Security Act. Based on this, among other things, **individuals are considered insured** if they:

- are in employment,
- are students under a study contract,
- receive job-seeking allowance,
- work under an engagement contract and the prescribed salary conditions are met,
- are registered as a full-time small taxpayer, or
- [are a pensioner drawing a direct pension.](#)

Secondly, you need to check if the given individual qualifies as a resident in line with the above-mentioned act.

Based on Section 4 of the Social Security Act, persons **are considered resident** if they

- are Hungarian citizens **with a permanent registered address in Hungary**, immigrants and persons with settled status, persons recognised as refugees and beneficiaries of subsidiary protection in accordance with Act LXVI of 1992 on Keeping Records on the Personal Data and Address of Citizens,
- are subject to the provisions of the Act on Entry and Residence of Persons with the Right to Free Movement and Residence who **exercise their right to free movement and residence for the duration of 3 months in the territory of Hungary**, and have registered as a resident in Hungary according to the Act on Keeping Records on the Personal Data and Address of Citizens, and
- are **stateless**.

One further prerequisite for the health service contribution payment is to **have a permanent registered address for at least one year without interruption** in the territory of Hungary.

What do you need to do to become insured?

The main rule is to **pay the health service contribution from the first day after the termination of entitlement** to health services, and to register this with the NAV within 15 days. However, there are insurance statuses where, upon termination and if the insured individual is a resident, the insurance does not need to start immediately by paying the health service contribution. According to Act LXXXIII of 1997 on the Services of the Compulsory Health Insurance System, such cases are the following:

- if the entitlement was valid for at least 45 days before the termination of the status, the insured status remains unchanged for another 45 days,
- if the entitlement lasted less than 45 days, then the insured status is lengthened with that given number of days,
- the insured status is upheld for another 45 days, if the entitlement prior to the termination of the current status lasted longer than 45 days, and the entitlement terminated last did not last 45 days, but no more than 30 days elapsed between the two entitlement periods.

If a given individual ceases to be insured for any of the above reasons, they need to register with the tax authority by filling in the **T1011 form**. This form can be downloaded from the NAV website. In 2019 the contribution amount is set at HUF 7,500 (EUR 23) per month (HUF 250 – EUR 0.77 – per day). The payment is due by the 12th day of the month following the given month. The tax identification number of the payer always needs to be indicated on the transaction.

It is possible to transfer the payment of this amount to another person (e.g. a relative), but this needs to be approved by the tax authority first. This information too must be indicated on the form.

When does the health service contribution payment obligation cease?

When a new insurance status is established – for instance, if the individual starts a new job and the tax authority receives a new registration from the employer, i.e. the paying agent, or if the employee moves abroad and becomes insured there – the tax authority **does not need to be informed** about the termination of the contribution payment. The tax authority will automatically cancel the individual's health service contribution payment obligation.

If someone incorrectly reports their payment obligation on the T1011 form, this needs to be cancelled at the authority. A change form must be filed within 15 days if the private individual acquires a new insurance status that the tax authority does not know about. This could be the case if the person becomes a pensioner drawing a direct pension or [receives child care allowance](#). In such cases, [entitlement](#) to healthcare services needs to be proven to the authority with a relevant resolution.

It is important to know that the statute of limitation on assessing and paying the contribution is 5 years pursuant to the [Act on Rules of Taxation](#).

Social security administration

The information given here about the health service contribution payment obligation covers only a fraction of the detail given in the legislation. The legal background of when to pay this contribution is in no way limited to these cases only. Please seek the help of a professional to get more information and to find out whether you need to pay the contribution or not. Feel free to contact the [social security experts of WTS Klient Hungary](#) if you have any specific questions about the topic.

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Languages

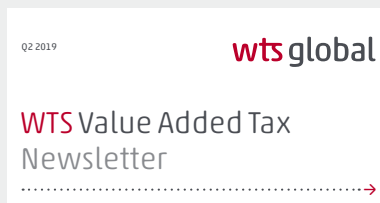
Hungarian, English

Latest publications

- » [From 2019, employees who are pensioners drawing a direct pension do not have to pay contributions in Hungary](#)
- » [Dramatic changes in social contribution tax and health-care contribution system from 2019](#)



The latest edition of the WTS Global VAT Newsletter has been released



The WTS Global VAT Newsletter edition for Q2 2019 reports on recent or expected changes in VAT and GST regulations in various EU and third countries.

You can download WTS Global VAT Newsletter for Q2 2019 in PDF format here:
[WTS Global VAT Newsletter Q2/2019](#)

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WTS Klient Ltd.

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Company registration number: Cg.01-09-930353

WTS Klient Tax Advisory Ltd.

Registered seat:
H-1143 Budapest, Stefánia út 101-103.
Company registration number: Cg.01-09-978231