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Summer 2019 amendments to tax laws – Summary for decision-makers

On 4 June 2019 the Minister of Finance submitted a bill to the Hungarian National Assembly regarding amendments to tax laws as well as EU legal harmonisation obligations related to taxation. Below we have summarised the key points of the proposals which are also important for decision-makers in Hungary.

Personal income tax

Mothers raising or having raised **at least four of their own children** or adopted children in their own household are entitled to **lifelong exemption** from personal income tax on their working income.

Social contribution tax

According to the Hungarian Minister of Finance, the social contribution tax will fall from 19.5% to **17.5%** from 1 July.

Top-up obligation

Based on the summer 2019 amendments to tax laws, the **obligation to top up tax advances will cease** for corporate tax and the innovation contribution. At their discretion, taxpayers can opt to top up their tax for the 2019 fiscal year, and if they do so then they can allocate part of their tax. To safeguard the liquidity of local governments in Hungary, the obligation to top up tax advances remains in place for local business tax (for taxpayers generating at least HUF 100 million – roughly EUR 312,000 – in net sales revenue in the year prior to the fiscal year).

Corporate tax

The rules on **tax groups** were specified in more detail. Entities launching activities during the year can ask, for example, to start their corporate taxpayer status as a member of a corporate tax group. Moreover, the interest deduction limitation for members of corporate tax groups is to change, and the legislator has clarified that transfer pricing rules do apply to the members of corporate tax groups for their transactions outside the group. The requirement for group members to use the same bookkeeping currency is to be abolished.

Local business tax

As a result of the amendment entering into force from 1 January 2020, the Act on Local Taxes would state that it is only possible to submit a **return via the NAV** in Hungary if the taxpayer's return is correct, i.e. if any errors indicated automatically by the system used to complete the return are corrected by the taxpayer.

VAT

The VAT rate for **commercial accommodation services** will fall from 18% to **5%**.

Advertising tax

The rate for advertising tax will fall, temporarily, to **0%** from 1 July 2019.

Health service contribution

The amount of the contribution is to rise from 1 January 2020 from HUF 7,500 (EUR 23) a month (HUF 250 – EUR 0.77 – a day) to **HUF 7,710 (EUR 24) a month (HUF 257 – EUR 0.80 – a day)**.

Accounting

By using **accruals and deferrals** the legislators are aligning the accounting of sales revenue with the related costs and expenses in accordance with their actual performance, regardless of their invoicing or the invoicing method.

EVA

The simplified entrepreneurial tax (EVA) in Hungary is to be **discontinued** from 1 January 2020.

KIVA

The bill reduces the rate for small business tax (KIVA) and related tax advances from 13% to **12%** from 1 January 2020.

EKHO

The bill would allow **employees of international sports organisations** to choose the simplified contribution to public revenues (EKHO). Allowances granted as part of sports diplomacy would also be exempt from tax.

Key elements of EU legal harmonisation obligations:

Corporate tax

The provisions related to **exit taxation** are to be supplemented, while provisions are being introduced on tax evasion stemming from different legal classifications of the same situation.

Transfer pricing

Based on the amendment, transfer pricing rules are applicable in the event of non-cash contributions not just for existing controlling members, but also for members (shareholders) becoming **controlling members** (shareholders) **with non-cash contributions**.

International tax cooperation

The bill implements the obligation from the **DAC 6 Directive** that is set for intermediaries to report data to the tax authority in relation to cross-border arrangements. The **reporting obligation** does not apply to VAT, excise tax and contributions. A default penalty of up to HUF 500,000 (roughly EUR 1,560) can be imposed upon failure to comply with the reporting obligation, or in the case of delayed, incorrect, false or incomplete execution thereof. The penalty can total up to HUF 5 million (roughly EUR 15,600) if the obligation is not met, or not lawfully met, by the deadline given by the tax authority in Hungary for the reporting. The first reporting deadline is 31 August 2020 (for the period between 25 June 2018 and 1 July 2020).

VAT – quick fixes

The bill contains legal harmonisation steps regarding value added tax, which are primarily aimed at **simplifying** certain transactions affecting intra-Community goods supplies and standardising practices among Member States.

→ **Call-off stock**

The simplification is subject to **strict conditions**, so for example, when transporting goods the potential customer and their tax number in the Member State where the goods are going must be known. The fact of the goods transportation must be indicated in the recapitulative statement, while both the entity transporting the goods and the potential buyer must have detailed records on the goods.

→ **Chain transactions**

In accordance with the proposal elaborated as part of the 2019 summer amendments to tax laws, the general rule is that goods supplies with shipping are deemed goods supplies to the intermediate entity. However, if the intermediate

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If you would like more detailed information on how the summer 2019 amendments to tax laws will affect your company, please get in touch with the [tax experts](#) at WTS Klient Hungary.

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entity gives the selling taxpayer the tax number determined for it by the Member State where the goods were shipped from, the sale with shipping will be a **supply of goods by the intermediate entity**.

→ **Tax-exempt intra-Community supply of goods**

Tax-exempt intra-Community supplies of goods are also subject to the taxpayer acquiring the goods or the non-taxpayer legal entity obliged to pay the tax having a **tax number** in a Member State other than where the goods are shipped from, i.e. this is the substantive law condition for the tax exemption.

VAT – irrecoverable debts

The summer 2019 amendments to tax laws in Hungary make it possible to **reduce the tax base** in self-revisions using irrecoverable debts if certain conditions are complied with.

VAT – tax-exempt services related to imports

For services directly related to exports, the VAT Act states that **exemption is subject to** such services being provided directly to the person carrying out the tax-exempt transaction related to the export. This provision was missing for imports, and has now been rectified by the summer 2019 amendments to tax laws.

VAT – exports

The proposal makes it possible to have exports of goods to outside the Community **verified** for the taxpayer by the **customs office of export**, not by the customs office of exit.

VAT – special tax reimbursement

Under a special tax reimbursement, the taxpayer may request the refund of the amount in question **directly from the tax authority**, provided that the taxpayer verifies entitlement to the reimbursement based on the principle of tax neutrality, and that there was or is no other way of handling the reimbursement. A further condition is that the tax may only be reimbursed if it was paid to the budget. This case arises, for example, if a taxpayer paid tax to a partner that was levied incorrectly, but the partner is then wound up and there is no way of having the partner reimburse the erroneously paid tax.

Zoltán Lambert, managing partner of WTS Klient Hungary talked about this topic on InfoRadio.



Listen to the conversation at this link:

wtsklient.hu/2019/06/06/tarsasagi-ado-feltoltesi-kotelezettseg/
Please note that the conversation is available only in Hungarian.

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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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