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The Bridge.**2020 summer tax amendments in Hungary**

No more top-up obligation for local business tax, 40% special tax for low tax bracket entities, lower rate of social contribution tax

On 3 July 2020 the Hungarian National Assembly accepted the bill on the 2021 budget. The law contains many material tax changes for 2020 and 2021. One of the main parts of the 2020 summer tax amendments is that following the [abolition](#) of the top-up obligation for corporate tax and the innovation contribution, now the same also applies for local business tax. There are also significant changes to the rules on social security, the EKAER and the fixed-rate tax for low tax bracket entities (KATA). Below we have summarised the main details for local taxation, social security and the "small taxpayers" in particular.

Top-up obligation for local business tax

According to the 2020 summer tax amendments, the paragraph of Act C of 1990 on Local Taxes that states "any company subject to corporate tax and keeping double-entry accounting records (including the Hungarian branches of foreign-registered companies, and other foreign-based entities applying bookkeeping methods equivalent to the principles of double-entry bookkeeping), whose annual net sales revenue in the tax year prior to the given tax year exceeded HUF 100 million (roughly EUR 283,000), must top-up the amount of local business tax advances paid for the tax year to the amount of expected tax payable for the tax year", is to be revoked. This essentially means that **the obligation to top up local business tax advances is no longer in force in Hungary for 2020 either**. The abolition of the obligation also applies to companies that follow [different financial years](#).

Other local taxes

To simplify the tax system the **building tax payment obligation for advertisement holding objects is to be abolished**.

Changes to social security, social contribution tax

Amendments are also being made to Act CXXII of 2019 on the Eligibility for and Funding of Social Security Benefits. According to the amendment, the **social security contribution payable on the difference** between the lower threshold set by law for contribution payments (30% of the minimum wage) and the actual income paid forming the contribution base **must be paid by employers for all employment relationships**.

From July this year, the in-kind health insurance contribution (4%), the cash health insurance contribution (3%), the labour market contribution (1.5%) and the pension contribution (10%) have been **merged into a single-rate contribution** in Hungary. The new contribution is called the [social security contribution](#),

with a rate equal to the amount of the contributions listed above, i.e. **18.5%**. The amendment means that almost every insured person has to pay the social security contribution of 18.5% on the income included in the contribution base.

However, companies will obtain some relief by the fact that from 1 July 2020 the rate of the **social contribution tax** is to fall by another two percentage points, from 17.5% to **15.5%**.

KATA: 40% special tax

For those in the KATA system the government introduced [some transitional measures](#) in the emergency situation announced because of the coronavirus, but the 2020 summer tax amendments have put in place some long-term changes for these taxpayers.

Act CXLVII of 2012 on the Fixed-Rate Tax of Low Tax-Bracket Enterprises (KATA) and on the Small Business Tax (KIVA) has been supplemented in that from **2021 private individuals can only be registered in the low tax bracket for one business relationship**. As of 1 January 2021, with the exception of the first registered relationship, the NAV will delete the private individual from the list of those in the small tax bracket for all other business relationships.

The 2020 summer tax amendments introduce an **extra 40% tax for those who invoice more than HUF 3 million (roughly EUR 8,500) to any given business partner during a year**. The Hungarian Ministry of Finance is quite open about the fact that this is intended to limit hidden employment. From 2021 this special tax must be paid:

→ by a payer as per the Act on Rules of Taxation, if they pay income to an entity in the low tax bracket that is a related company;

- by an entity in the low tax bracket if they earn income from a foreign-registered legal entity or other organisation that is a related company;
- by a payer as per the Act on Rules of Taxation, if in the given year it pays income of more than HUF 3 million (roughly EUR 8,500) to an entity in the low tax bracket as counted from the start of the year; the extra tax applies to the amount in excess of the HUF 3 million (roughly EUR 8,500).

In the first two cases, the tax must be assessed, declared and paid by the 12th of the month following the payment/income, while in the latter case initially by the 12th of the month after the month in which the payer crossed the afore-mentioned threshold, then following that by the 12th of any month in the given year in which it provides income to the entity in the low tax bracket. In the tax return the payer has to indicate the tax number, name and address of the entity in the low tax bracket. This is an extra special tax that **provides no exemption from payment of the specific tax.**

New data reporting obligation for entities in the low tax bracket

From 2021, entities in the low tax bracket **must inform payers entering into a contractual relationship with them that they are in the low tax bracket**, and when this status is terminated or restarted.

By 31 January of the year after the given year, the payer must inform the low tax-bracket entity **about the amount taken into account for the 40% tax base** (based on the information above).

EKAER

The legal regulations regarding the EKAER in Hungary are changing from 2021. We will let you know about the most important details in a separate newsletter.

Deadline extension for DAC6 data reporting obligation

For cross-border arrangements falling under the [data reporting obligation](#) that started between 25 June 2018 and 30 June 2020, the deadline has been [shifted](#) to 28 February 2021.

For transactions after 1 July 2020 the 30-day reporting deadline will be applied for the first time from 1 January 2021, which essentially means the first deadline is 31 January 2021.

TAX CONSULTING

If you would like more detailed information on how the 2020 summer tax amendments will affect your company, please get in touch with the [tax experts](#) at WTS Klient Hungary.

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