December 2021

wts klient newsletter

WTS Klient. The Bridge.

Dear Readers,

Once again it is one of the most wonderful times of the year, a time of intimate Advent anticipation and exciting Christmas preparations. And just like this time last year, we are once again torn apart from each other and from our colleagues by the new outbreak of the coronavirus. We are working from home again, and once again we have to cancel the traditional Santa Claus celebration for the "Klient" children and our Christmas dinner together. We cannot wish you Merry Christmas with a warm handshake and a smile at each other without a mask.

So we look forward to 2022, which must surely be a better year. Policymakers are certainly taking steps to achieve that – not forgetting the forthcoming elections – with tax cuts and extending tax relief measures. As recently reported in the latest WTS Klient Newsflash, next year social contribution tax will be reduced even earlier and more drastically than planned in the spring, the vocational training contribution will be abolished earlier, the KIVA will be reduced, and the maximum 1% local business tax for SMEs will stay with us too.

In our last newsletter this year, we take a closer look at these changes. We examine whether foreign workers will be entitled to the much-publicised personal income tax refund, what benefits and allowances workers with children will be entitled to next year, and we analyse which companies could benefit or suffer from the increase in the minimum wage and the guaranteed wage minimum, as well as the tax cuts introduced to compensate for this. In our article starting on page 6 we look even further ahead, summarising the details of the expected introduction in Hungary of the global minimum tax by 2023.

Looking ahead to next year, we will do our utmost to make 2022 a successful year, both as an employer and as a trusted and long-term partner for our clients. As we did this year, and not without success. This is proven by the fact that WTS Klient Kft. was ranked one place higher in the list of accounting firms published in the Book of Lists of the Budapest Business Journal, and also by the fact that we were included in the TOP 200 Most Lovable Workplaces out of 1600 companies in the DreamJo.bs 2021 competition.

Follow us next year too, read our articles, and feel free to contact us if you have any questions. Until then, we wish you peaceful preparations, a Merry Christmas, and above all, good health!

Eszter Balogh
partner

Contents

WTS Klient wins Most Lovable Workplaces 2021 title

Based on 68 thousand votes, WTS Klient was selected among the 200 winners of the Most Lovable Workplaces 2021 award out of 1600 companies in the competition announced by DreamJo.bs. The award recognises the workplaces that are considered the most attractive by the employees and jobseekers who took part in the vote.

Personal income tax refund for foreigners in Hungary

How much is refundable to whom, and from what?

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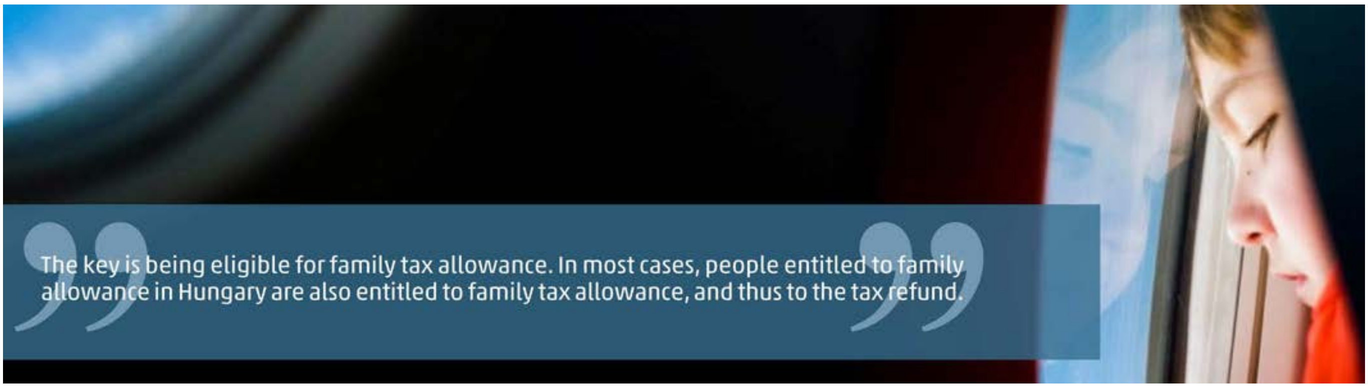

Personal income tax refund is currently one of the hottest topics in the Hungarian media. You can read and hear about them everywhere: parents raising children can expect their refunds soon, and the tax authority is already prepared for the February 2022 payments. However, let's take a closer look at some of the cases of who and what is refunded. Are foreign employees entitled to a personal income tax refund, and if so, under what conditions?

Who is eligible for a tax refund?

Personal income tax refund is essentially **available to private individuals who are entitled to family tax allowance for at least one day in 2021, and who earn income forming part of their consolidated tax base**, such as income from employment, contract fees or renting property in the given year. It is important to note that no refunds are available for income taxable separately (e.g. real estate sales). However, you can get a refund, for example, if you are a sole trader in the low tax bracket and entitled to family tax allowance.

So the key to all this is being eligible for family tax allowance. In most cases, **people entitled to family allowance** (in Hungarian családi pótlék) **are also entitled to family tax allowance in Hungary**, and thus to the tax refund. In the case of parents raising their child/children together, both spouses are eligible, irrespective of whether they are life partners or married.

How much are we talking about?

The personal income tax refund amount is the personal income tax base for 2021 less any allowance, **up to a maximum of HUF 809,000** (roughly EUR 2,225) **per entitled person**. For low tax bracket entities one quarter of the tax paid in is refunded, subject to the above limit in the case of hybrid employment status during the year, such as when the taxpayer is both an employee and a low tax bracket entity in parts of the year. If both parents qualify then both are entitled to the tax refund, even if, in practice, only one parent claims the family tax allowance.

As a foreigner, am I entitled to a personal income tax refund?

Yes, if you are entitled to the family allowance and you are a private individual entitled to claim relief. To examine the latter question, we refer to Section 1/A (3) of the Personal Income Tax Act. According to said Act, non-resident individuals are entitled to Hungarian tax allowance **if their domestic taxable income reaches 75% of their total income for the fiscal year** (including income taxable in any other state). Please note that in order to qualify for the Hungarian family tax allowance, the individual must not be entitled to such or a similar relief in the other state during the tax year under consideration.

Am I also entitled to a personal income tax refund in Hungary if I am a foreigner working for a Hungarian company as an employee?

Yes, if the 75% condition described above is met and you are entitled to family allowance in Hungary. In such cases, **the tax authority will make an automatic refund based on data received from the employer** by 15 February 2022, and the amount of the "advance" can be changed when the tax return is prepared and submitted.

I am posted to Hungary as a foreigner for an uninterrupted duration of two years, I am still employed by my employer in Germany, and I pay my own personal income tax quarterly. Am I eligible for the tax refund?

If you qualify for the allowance detailed above during the posting (as a non-resident under the 75% rule), then yes. However, in this case, since the tax authority does not receive income data from a Hungarian employer, it cannot make an automatic refund. Therefore, the amount of the personal income tax refund **must be indicated in the annual personal income tax return**. In this case, the tax authority will pay the amount indicated in the tax return on 1 March 2022 at the earliest.

Expat taxation consulting

WTS Klient Hungary has substantial expertise with regard to the taxation of expat workers. If you have questions regarding this topic, you can count on a full analysis and professional answers from our colleagues. Please feel free to contact us.

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» due diligence

Languages

Hungarian, German, English

Latest publications

» One story ends, another begins: the tax consequences of Brexit
» Are you an expat worker in Hungary? Be aware of the following before filing your returns in Hungary!
» Basic information about postings

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Family support benefits in 2021-2022

Scope of benefits grows again

Author: **Marianna Fodor**
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Two years ago we summarised what the main and most frequent family support benefits are in Hungary. Yet we are now quite used to the **amounts changing every year**, what is more, **the scope of the benefits and the rights to family support benefits also vary**. It is certainly not always easy to navigate through the changes, so below we give an overview of what benefits and allowances parents and employees are entitled to in 2021 and 2022, and what benefits subject to preferential tax rates for some enterprises might possibly expect.

Paternity leave

Following the birth of their child, **fathers are entitled to five days of paid leave**, which they may take in one or in several parts until the end of the second month after the child is born. Any income and taxes related to this period of supplementary leave are reimbursed to the employer by the Hungarian State Treasury.

Supplementary leave for children

In Hungary, both parents have the right to claim extra paid leave based on the number of children they have, which amounts to **two days for one child, four days for two children, and six days for three or more children**. This supplementary leave may first be claimed by parents in the year the child is born, and for the last time in the year the child turns 16.

Family tax allowance

Individually or on a shared basis, parents can reduce their consolidated personal income tax base based on the number of children they have. This means the personal income tax base may be reduced by as much as HUF 66,670 (roughly EUR 184) per month with one child, by HUF 133,333 (roughly EUR 368) per child per month with two children, and by HUF 220,000 (roughly EUR 608) per child per month with three or more children. With regard to the amount of tax this translates to a reduction of **HUF 10,000, HUF 20,000 and HUF 33,000** (roughly EUR 28, 55 and 91) per eligible dependant. Parents can also claim the family tax allowance from the 91st day of the pregnancy.

If the personal income tax base is not enough to claim the entire family tax relief, parents **may use this allowance** (family contribution allowance) **for their social security contribution. From 1 July 2020, the previous 1,5% labour market contribution became part of the social security contribution**, increasing the basis of the allowance.

Here we need to mention the **newlywed allowance** too, which can be claimed by couples for 24 months after the wedding where this is the first marriage for at least one of the spouses. Individually, or together, the couple can claim a monthly total **tax base allowance of HUF 33,000** (roughly EUR 92), which in practice reduces tax by HUF 5,000 (roughly EUR 14) – regardless whether the couple claims the family tax relief or not.

Extraordinary tax refund

Until 15 February 2022, families with children can receive an extraordinary tax refund. This tax refund is available for all parents with children eligible for the family tax allowance, and relates to tax paid in 2021 for the following activities: **independent and non-independent activity, tax on other income, two-thirds of the simplified contribution to public revenues (EKHO), and one-quarter of the 2021 itemised tax of KATA business-owners** raising children. However, personal income tax can be refunded at most up to the tax on the average annual wage calculated based on data from December 2020. The state refunds **up to HUF 809,000** (roughly EUR 2,237) as a maximum each to parents paying personal income tax and those under the EKHO scheme.

Personal income tax allowance for the under 25s

Another new element to the family support benefits affects those under 25. From 1 January 2022, people under 25 **do not have to pay personal income tax on their income forming part of the consolidated tax base**, i.e. on their wage income, and **on income** from other non-independent activity and certain independent activities (e.g. fees for services, entrepreneurial income, etc.). There is a **ceiling** here too. This means that personal income tax does not have to be paid up to an amount corresponding to the average national gross wage published by the Hungarian Central Statistical Office for full-time employees in July of the previous year multiplied by the number of entitlement months; the exemption from personal income tax does not apply to any wage in excess of this amount.

Crèche and nursery

Crèche and nursery services for employees' children may be reimbursed as **tax-free benefits** based on an invoice, up to the amount of the cost incurred.

Back-to-school vouchers

In previous years, back-to-school vouchers for primary or secondary school children were a popular element of the fringe benefit system. However, this type of benefit is now **subject to the same tax rate as wages**.

Family allowance

Family allowance is the most traditional of family support benefits in Hungary. The state provides a family allowance for parents from the birth of their child until the child finishes his or her education, but no later than the school year in which he / she turns 20. The amount of the family allowance has not changed for several years, and payments will continue in 2022 as well. It amounts to **HUF 12,200** (roughly EUR 34) **for one child, HUF 13,300** (roughly EUR 37) **per child in the case of two children, and HUF 16,000** (roughly EUR 44) **per child if there are three or more children**. Parents raising children on their own – or if the child is ter-minally ill or seriously disabled – are eligible for a higher family allowance.

Maternity benefit

Women who attended prenatal care at least four times during their pregnancy are eligible for a state-granted maternity benefit amounting to **HUF 64,125** (roughly EUR 177) in 2021 and 2022, or HUF 85,500 (roughly EUR 236) in the case of twins.

Family support benefits for childcare

Infant care benefit (csed) is provided for women who had social security for at least 365 days within the two years prior to their child's birth. Infant care benefit is provided for the duration of maternity leave, i.e. for 168 calendar days.

Child care benefit (gyed) is provided until the child turns two, and is paid to women who had social security for at least 365 days within the two years prior to the child's birth. In 2021 the ceiling for the child care benefit was set at HUF 234,360 (roughly EUR 648) per month. As a result of the increase in the minimum wage to HUF 200,000 (roughly EUR 553), the child care benefit in 2022 will be capped at HUF 280,000 (roughly EUR 774). With child care benefit the mother is entitled to work regular hours after her child turns six months old.

Child care allowance (gyes) amounts to HUF 28,500 (roughly EUR 79) per child per month in 2021, and this is unlikely to change in 2022 either. With the child care allowance, similarly to the child care benefit, the mother is entitled to work regular hours after the child turns six months old. Parents or grandparents are eligible to receive the child care allowance until the child turns three.

In 2021 and 2022, parents and grandparents raising three or more children may claim **child raising support (gyet)** of HUF 28,500 (roughly EUR 79) per month while the youngest child is aged between three and eight. With child raising support, however, the parent or grandparent can only work 30 hours a week, or work from home without any working-hour restrictions.

Payroll

The types of family benefit listed above, applicable in Hungary in 2021 and 2022, are just the most general and typical cases. There are special cases and provisions not elaborated on here, but our payroll specialists are happy to give you more information for your company about any of the family support benefits available in 2021 and 2022.

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Specialisations

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- social security
- fringe benefit

Languages

Hungarian, English

Latest publications

- Personal income tax base allowances in Hungary in 2021
- Health service contribution
- From 2019, employees who are pensioners drawing a direct pension do not have to pay contributions in Hungary

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The latest WTS Global Newsletters have been released

The fourth edition of the WTS Global VAT Newsletter in 2021 provides respective global insights as well as the latest insights on changes in jurisdiction in terms of VAT and GST in seven countries: Austria, France, Germany, Hungary, Poland, Romania and Ukraine. You can download the newsletter in PDF format here: WTS Global VAT Newsletter #4/2021

In the third edition of the WTS Global Transfer Pricing Newsletter in 2021 WTS experts from 15 countries provided an update on recently introduced transfer pricing legislations and cases, specifically the adoption of certain OECD guidelines. You can download the newsletter in PDF format here: WTS Global TP Newsletter #3/2021

The third WTS Global Customs Newsletter this year shares with you news on trade and customs developments from all over the world and reflects the typical issues that we see discussed internationally. You can download the newsletter in PDF format here: WTS Global Customs Newsletter #3/2021

Global minimum tax in Hungary

9% corporate tax – here to stay?

Author: **Tamás Gyányi**
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The OECD started developing the regulatory framework for a global minimum tax in 2019. As of today, the agreement has been signed by **136 countries** which means that governments will **levy a standard 15% corporate tax** on multinational companies in the future (according to the optimistic scenario, from 2023). This is how the global minimum tax makes tax evasion more difficult for multinational companies, while creating fair taxation. Let's see what it means for Hungary and what we should pay attention to. However, it is important to know that currently we can only talk about drafts and the results of ongoing negotiations, which may change in the future.

Whom does the global minimum tax apply to?

On 8 October 2021, Hungary officially announced it would **join** the agreement on the global minimum corporate tax, thus all OECD and G20 countries now support the idea.

The global minimum tax **will only apply to multinational companies with consolidated sales revenues exceeding EUR 750 million**, thus the majority of local enterprises will not be subject to the regulation directly. Government agencies, international organisations, non-profit organisations, defined pension funds or investment funds will not be subject to the regulation.

Essence of global minimum tax

Without a more precise description of the detailed rules that are being developed, the global minimum tax means that **if a foreign subsidiary of a group of companies qualifies as "undertaxed", the tax difference can be collected by the country of the parent company** (income inclusion rule). The minimum tax is based on the data of the group's consolidated financial statements. With regard to the global minimum tax, however, detailed rules are also being developed for cases where this difference can be collected by the countries of the subsidiaries, creating the right of taxation in the country where the income is generated (source country) if the taxation in the country receiving the income is lower (undertaxed payment rule).

Conditions in Hungary

In Hungary, the 9% corporate tax rate would remain in the future and we can apply a **special calculation method** for the substance carve-out. It means that corporate assets and salary payments will be deductible from the tax with a specific calculation method. Companies not engaged in fictitious activities but rather in activities that involve actual payments of assets and wages will be in a more favourable position. **The substance carve-out is 8% of tangible assets and 10% of payroll**. The allowances will apply to a 10-year transitional period and previous rates would fall to 5% in the long run. For Hungary it would definitely be a positive development if – apart from corporate tax – the local business tax or even the innovation contribution could be taken into account when calculating the minimum effective tax rate.

Questions about the global minimum tax

The global minimum tax and the Multilateral Convention, together with the bilateral tax treaties currently in force and the

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Tax consulting

From a Hungarian point of view, the number of companies affected by the global minimum tax is very low; companies stepping into the international arena but falling short of the global scale thankfully do not have to apply these rules. However, the changes to the Multilateral Convention will require constant monitoring of legislative changes, and the complexity of global tax calculations will also pose a challenge. The financial managers of multinational companies should definitely consult a tax expert about the new tax, so please do not hesitate to contact us if you have questions.

mandatory application of [transfer pricing rules], are **expected to lead to very complex international tax situations**. There are also many questions about the bilateral treaties. One only has to think of the open question of what to do with an "obsolete" type of tax defined in a tax treaty signed a long time ago, and what to do with the **hybrid taxes** that have been introduced in the meantime, which display both sales tax and income tax characteristics. **Tax collection** will not be easy either, since an international tax structure generally does not consist of two countries and two levels but covers many countries and activities.

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» due diligence related to acquisitions
» review of intra-group transactions (TP, VAT/supply chain)
» tax advisory related to international postings

Latest publications

» eVAT: introduction of draft VAT returns delayed
» 5% VAT on homes – it's back
» Property transfers between siblings: duty-free from 8 July!

Languages

Hungarian, German, English

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Minimum wage increase and decreasing taxes and contributions for employers

Which companies will benefit and which might suffer from next year's tax changes?

Author: **Zoltán Lambert**
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Almost hidden among the Hungarian government's tax changes for 2022 (personal income tax rebate for parents, personal income tax exemption for people under 25, etc.) are **provisions** to reduce the tax and related contributions burden on **employers** by **lowering the additional costs resulting from the minimum wage increase**. What are these measures and how do they affect the staff costs incurred by companies? Do these measures benefit or hinder companies depending on their size? These are the questions I will be seeking to answer in this article.

What could be the impact of the minimum wage increase?

The minimum wage increase from a gross HUF 167,400 (roughly EUR 457) to HUF 200,000 (roughly EUR 547) – both the almost HUF 33,000 (roughly EUR 90) rise and the 20% difference – is the **most significant** measure in Hungary **over the last decade** to improve the incomes of the lowest paid employees. The **increase** in the guaranteed wage minimum for skilled workers from the gross HUF 219,000 (roughly EUR 600) to HUF 260,000 (roughly EUR 710) is also significant. With these two measures, the government **would have imposed burdens on employers** leading to a large number of them being forced into near bankruptcy or having to implement significant redundancies.

To avoid this, **the government abolished the 1.5% vocational training contribution, reduced the social contribution tax** by 2.5 percentage points **to 13% and lowered the small business tax rate from 11% to 10%**. This latter measure was adopted because in Hungary, small and medium-sized enterprises registered under the small business tax pay social contribution tax on their employees through the small business tax. Since the size of the cost savings achieved by these measures will depend to a large extent on how many people the employers have on the books, and the composition of their income, it is difficult to determine the winners and potential losers of this package. Based on some assumptions, the following picture emerges.

What does this mean for a specific company?

If we simplify the situation by assuming that the rise in the guaranteed wage minimum and the minimum wage increase resulted in an average additional cost of HUF 40,000 (roughly EUR 110) per employee per month, and assuming that the average gross monthly income of employees not in these two categories is around HUF 400,000 (roughly EUR 1,100), then we can conclude the following: if for every two lower-income employees (2 x HUF 40,000 – roughly EUR 2 x 110 – extra costs) there are five higher-income workers (5 x HUF 16,000 – roughly EUR 5 x 44 – cost reduction) in a company, the measures will not have affected the company's costs. If the proportion of employees earning the minimum wage or the guaranteed wage minimum is higher than the above, the firm may face additional costs. If the proportion is lower, it will save costs.

Of course, this rough calculation could be inaccurate because it assumes that the **wages of higher-paid employees** do not increase. Yet it is precisely the rise in the guaranteed wage minimum and the minimum wage increase that could force these companies to raise the salaries of their higher-paid employees above the average. If we assume that the company would have applied a salary increase of around 5% for all its employees even without the government's measures, the calculation above changes and a further 4-5% is added to the 5% salary increase for those having a higher income (depending on the proportion of the minimum wage and guaranteed wage minimum earners), because the reduction in taxes and contributions for such a large additional increase will offset the additional burden of the gross wage increase. I would not make any predictions as to whether a 9-10% salary increase is sufficient at a company, or whether the rise in the guaranteed wage minimum and the minimum wage increase might substantially reduce or eliminate the income advantage of those in higher salary categories, which might justify higher salary increases at these levels as well.

Is there any difference depending on the size of the company?

In general perhaps, the larger a company the more likely it is that they employ a smaller proportion of employees earning the minimum wage or the guaranteed wage minimum. This suggests that **small and medium-sized enterprises are more affected** by the rise in the guaranteed wage minimum and the minimum wage increase.

This disadvantage is addressed by the government's measure to extend to 2022 the **local business tax** ceiling at 1% introduced for 2021 to small and medium-sized enterprises with fewer than 250 employees and annual net sales revenue or total assets of no more than HUF 4 billion (roughly EUR 11 million).

Again, I am making the following assumptions based on a rough calculation.

A typical Hungarian company that meets the above criteria has net sales revenue of HUF 2 billion (roughly EUR 5.5 million), its local business tax base is 50% of sales revenue, and 50% of its 80 employees earn the minimum wage or the guaranteed wage minimum. In this example, the additional cost of HUF 40,000 (roughly EUR 110) per month as calculated in the previous section of this article will be HUF 1.6 million (roughly EUR 4,400) per month for 40 employees, resulting in an additional cost of about HUF 20 million (roughly EUR 54,200) per year. The 4% tax and contribution saving for the company's higher-paid employees amounts to HUF 640,000 (roughly EUR 1,750) per month, or about HUF 7.5 million per year. The company's local business tax will generate additional savings of HUF 10 million (roughly EUR 27,300) per year compared to the maximum rate of 2%. In total, the government's package of measures will reduce the company's earnings by HUF 2.5 million (roughly EUR 6,800).

However, assuming again that the company would have decided to raise the salaries of its higher-paid employees by 5% even without the government's measures, the savings of a few hundred thousand HUF (roughly a few thousand EUR) from a four-percentage-point **reduction in taxes and contributions would mitigate the above-mentioned deterioration in earnings**.

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Tax planning and consulting based on international and Hungarian standards

If you are uncertain about how your company will be affected by the rise in the guaranteed wage minimum and the minimum wage increase as well as the tax measures to compensate for them, and you need an expert to help you optimise your employees' wages in 2022, our colleagues are here to help.

What does this mean for the national economy?

Of course, the above examples do not mean that there cannot be companies, or even entire sectors, that will incur much higher additional costs than the average as a result of the government's package of measures. A number of other market conditions can also affect the profitability of companies. At the level of the national economy, however, we can probably say that **the additional burden of the rise in the guaranteed wage minimum and the minimum wage increase will be largely offset by further measures taken by the government** in 2022.

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» due diligences

Languages

Hungarian, German, English

Latest publications

» Timing difficulties of corporate tax allocations in Hungary
» A few thoughts on choosing the small business tax
» Tax and social security revenues of the 2020 Hungarian budget in the shadow of the coronavirus

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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