

wts klient newsletter

Dear Readers,

Although we are already two months into the year, since this is the first WTS Klient Newsletter in 2023, let me first wish you a successful and prosperous new year. Moreover, this is our first newsletter in which we no longer greet our readers as a group of companies, but as a single entity, WTS Klient Business Advisory Ltd., bringing all our divisions together. However, our clients do not have to expect any changes other than our name, unless even more seamless and flexible cooperation aided by continuous technological development and digitalisation counts as such. We hope our automated solutions related to the personal income tax returns of foreign employees or our cross-border offers for multiple countries or even regions will benefit you too, and help your work and decisions.



You can count on us for taxation, accounting, payroll and financial accounting matters, just like before. We trust you will keep finding lots of useful information in our newsletters. As always, in this edition too we will try to summarise the important changes affecting multiple areas, from labour law to transfer pricing. In the first article, our accounting partner elaborates on the opportunities employers have to track wage inflation; in the second article, the head of our payroll division presents the amendments to tax allowances and leave time, which are serious issues facing both employers and employees alike. On page 6 we discuss the new transfer pricing documentation rules affecting almost every company, and in our last article, we look at the taxation on securities acquired from employers, emphasising the laws and regulations on foreign employees and foreign securities.

If international taxation and social security issues play a significant role at your company, the latest international publications of WTS Global can be accessed with a simple click from our Newsletter, whether it is VAT, transfer pricing, financial services or postings to the American continent you are interested in.

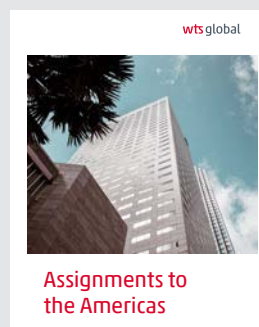
We hope you enjoy reading it, and we look forward to receiving your call or letter if you have any further questions on these topics.

András Szadai
Partner



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Assignments to the Americas has been released



The topic of "cross-border assignments" is very complex and can become even more complicated depending on the host country. The latest WTS Global Mobility Service brochure would like to give you the first important information and provide you with a tried and tested network of specialists who can effectively clarify all the questions that arise and initiate measures to ensure that the assignment is a complete success. The booklet offers you a brief overview of tax, social security and immigration related matters you might consider for your cross-border work to different countries on the American continent.

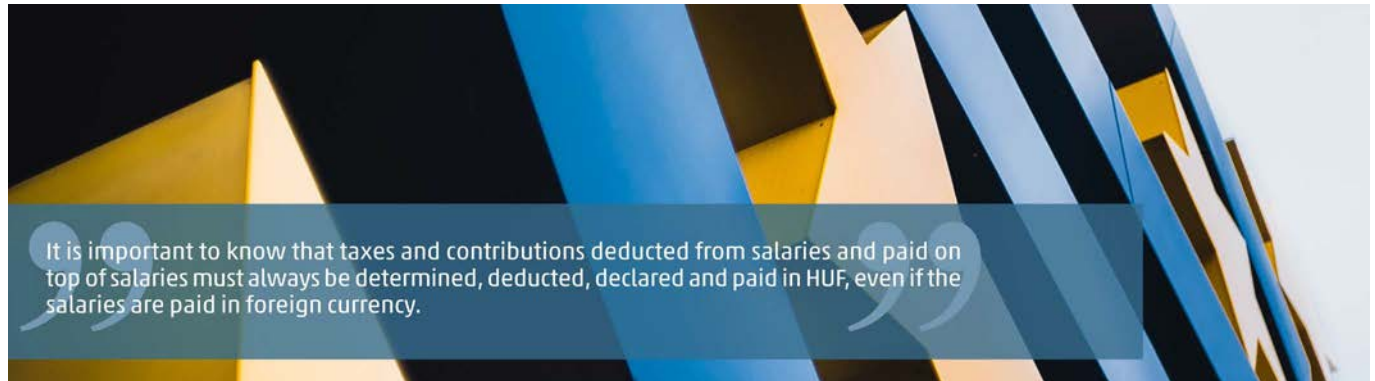
You can download the publication in PDF format here:
[Assignments to the Americas](#)

Can you pay salaries in foreign currency?

2023 amendment to the Hungarian Labour Code brings no change

Author: **Eszter Balogh**

eszter.balogh@wtsklient.hu



The need to pay salaries in foreign currency, or at least to peg wages to the euro, primarily arises for employees of Hungarian subsidiaries of foreign companies, but now also for an increasing number of Hungarian employers because of the [volatility of the forint exchange rate](#). Is this possible under the current regulation? Has the situation changed with the large-scale amendment of the Hungarian Labour Code adopted in December?

Accounting, taxation, dividends: all possible in foreign currency too

Inflation and the fluctuation of the forint exchange rate have an impact on all economic actors in Hungary. Companies in Hungary often choose [accounting in a foreign currency](#) to avoid unfavourable exchange rate changes. If possible, businesses tend to determine figures in their **contracts** in a foreign currency, which they then convert into forints upon the performance date, or, by agreement, they invoice in the foreign currency to their Hungarian or foreign clients.

Given the state of emergency, as a [special measure](#) the government allowed payments of **corporate tax in US dollars or euros**. Businesses have to report such changes to the tax authority by the first day of the month preceding the first day of the first fiscal year after 30 September 2022. The amounts of corporate tax or corporate tax advances paid in US dollars or euros are credited to the company's tax account in HUF on the day the company's domestic bank account is debited, at the exchange rate of the National Bank of Hungary on the given day. Companies can change their selection up to the last day of the fiscal year if they want to pay corporate tax or corporate tax advances in HUF again.

As of 1 January 2023, in addition to corporate tax, **local business tax** can also be paid **in US dollars or euros** in Hungary.

The companies can pay private individual owners [dividends or interim dividends](#) as approved by the members' meeting or general meeting by converting such into a jointly agreed currency, such as from HUF to EUR. What about salaries and wages? Can paying salaries in foreign currency be a viable solution for employers faced with the challenges of wage inflation? Did the situation change with the amendment of the Hungarian Labour Code in December 2022?

Salaries in foreign currency only for executives?

Pursuant to Article 154 of Act I of 2012 on the Hungarian Labour Code, **salaries must be determined and paid in HUF** in order to protect salaries. Deviating from this is only possible if [working abroad](#), or if otherwise provided by law.

For **executive employees**, for example, a derogation is authorised under Article 209 of the Labour Code, based on which it is possible to determine and pay salaries in foreign currency too. In practice, this means that executives, company directors, managers, branch managers or other employees classified as managerial staff can have their salaries set in euros. However, since many aspects have to be taken into account (such as wage protection in light of currency fluctuations) and understanding the legislation is not a simple task either, you should not delve into amending work contracts before consulting with an expert.

It is important to know, however, that **taxes and contributions** deducted from salaries and paid on top of salaries **must always be determined, deducted, declared and paid in HUF**, even if the salaries are paid in foreign currency. For this conversion, the business entity must use the exchange rate published by the National Bank of Hungary on the 15th day of the month preceding the month of payment, in accordance with the Act on Personal Income Tax. These rules are not affected by the amendment to

the Labour Code adopted in December 2022, so they will remain in force this year.

So the situation has become somewhat contradictory: while a salary determined in euros would currently protect wages better, it is the rule on wage protection that is preventing this.

Instead of paying salaries in foreign currency, employers have no choice for non-executive employees but to compensate for wage inflation in the form of bonuses or other benefits, in forints of course.

Comprehensive payroll services

The payroll team at WTS Klient Hungary has been carrying out payroll activities for large international companies for nearly 25 years, and has huge experience with taxation and accounting issues related to foreign employment too. If you have any questions regarding payment of salaries in foreign currency or any benefits, or if you would like to entrust us with the entire payroll activity for your company, please contact us for a proposal.

→ Our expert



Eszter Balogh

Partner
Accountig
Telephone: +36 1 887 3715
eszter.balogh@wtsklient.hu

Specialisations

- » accounting
- » IFRS
- » accounting advisory
- » payroll

Education

- » economist
- » chartered accountant
- » IFRS-certified chartered accountant
- » tax advisor

Languages

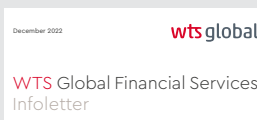
Hungarian, English

Latest publications

- » [Deadline for filing corporate tax returns fast approaching](#)
- » [Policies governing the operation of businesses in Hungary](#)
- » [Hungarian branch of a foreign-registered company](#)



The latest WTS Global Financial Services and Transfer Pricing Newsletters have been released



The latest WTS Global Financial Services Newsletter presents taxation related news from nine countries with focus on the international financial services industry. You can download the newsletter in PDF format here: [WTS Global Financial Services Newsletter #4/2022](#)



In the last edition of the WTS Global Transfer Pricing Newsletter in 2022 WTS experts from 13 countries provided an update on recently introduced legislations and cases related to transfer pricing. The newsletter is available in PDF format here: [WTS Global TP Newsletter #3/2022](#)

Tax allowances and leave in 2023

Rules on using SZÉP cards to change

Author: **Marianna Fodor**

marianna.fodor@wtsklient.hu



2023 is starting with significant changes for employees and employers in Hungary: the introduction of new tax allowances, a new type of leave, only one account for SZÉP cards, and the minimum wage increasing. In our previous article we mentioned that the National Assembly of Hungary adopted **major amendments to labour laws** last December. Although the amendments did not affect the possibility to pay wages in foreign currency, they did substantially change the previous rules in a number of other areas. Below is a summary of the most important changes affecting labour law and payroll accounting that will apply from 1 January 2023.

Minimum wage

Just like the end of each year, a new wage agreement was reached between the Hungarian government and employers last December. Accordingly, from 1 January 2023, the amount of the lowest wage, i.e. the **minimum wage**, has been increased from HUF 200,000 gross to HUF 232,000, while the amount of the **guaranteed minimum wage** has been increased to HUF 296,400. At the same time, the basis for the **personal allowance**, which is one third of the current minimum wage rounded to one hundred forints, has been increased to HUF 77,300, which means a monthly tax allowance of HUF 11,595.

SZÉP card with only one account

For **SZÉP cards**, the annual limit is still HUF 450,000, up to which employers must pay 28% tax (15% personal income tax and 13% social contribution tax); the excess is taxed as an other benefit (at a tax rate of 33.04%). However, the **three sub-accounts** (hospitality, leisure and accommodation) **have been merged**: from 9 January 2023 there is only one **SZÉP card account** for each employee. The individual sub-accounts and their respective allowances have been terminated. The amounts previously paid into each sub-account have been merged and can be used on a combined basis this year. Employees who already have a SZÉP card will not be given a new bank account number, but will **retain their accommodation account number** with each distributor.

Increasing tax allowances

Depending on the number of dependent beneficiaries, the family tax allowance for one dependent beneficiary enforceable from the tax base **remains** at HUF 66,670 per entitlement month, rising to HUF 133,330 for two dependent beneficiaries and HUF 220,000 for more than two dependent beneficiaries. However, from 2023, the **family tax allowance** for a dependent beneficiary who is permanently ill or a severely disabled person is HUF 66,670 higher per month, so the amount of the allowance for these children increases by HUF 10,000 in tax terms. Employees will be able to request the validation of this allowance on the tax advance declaration.

Looking at the tax allowances, the **benefit for young people under 25** also increases: in 2023 the amount of the **allowance for young people under 25** is HUF 499,952 per month of entitlement, which means a tax saving of HUF 74,993.

Newest element of tax allowances

A new **allowance for mothers under 30** has been introduced in Hungary from this year. A young mother is entitled to the allowance if she became entitled to the family tax allowance after 31 December 2022 with regard to her unborn child, biological child or an adopted child. This allowance is therefore available to young mothers who have reached the age of 25, are under 30 at the start of their entitlement, and became eligible for the family tax allowance after 31 December 2022, for example she reached her 91st day of pregnancy after 31 December 2022 or her child is/was born after 31 December 2022. The maximum monthly allowance for mothers under 30 is the amount of the average gross earnings of full-time employees at the level of the national economy for the month of July of the year preceding the year in question, as officially announced by the Hungarian Central Statistical Office (KSH). This means that in 2023, the allowance is HUF 499,952 per month of entitlement, which means a tax saving of HUF 74,993.

Leave

In addition to the changes in tax allowances, a new **type of leave** has been added to the Hungarian Labour Code. Employees are entitled to **44 working days of parental leave** up until their child reaches the age of three, subject to at least one year of employment. This leave must be granted at the time requested by the employee. For the duration of the parental leave the employee is entitled to 10% of the absence pay, reduced by the amount of child care benefit or child care allowance paid for this period. To do this, a decision awarding benefits has to be requested.

The regulation on **paternity leave** is also changing. Upon the birth of a child, in 2023 the father shall be entitled to **ten working days'** leave - instead of the five granted previously - no later than by the end of the second month following the birth of the child or, in the case of adoption, no later than the end of the second month following the finalisation of the decision authorising the adoption, granted when requested, in no more than two parts. The employee is also entitled to paternity leave if the child is stillborn or dies. The employee is **entitled to absence pay for five working days** of paternity leave, while **from the sixth working day onwards** he is entitled to **40% of the absence pay**.

Restrictions on execution

Fewer people will be affected, but it is worth noting that the **restrictions on execution** have increased. From 1 January 2023 an **exemption** is granted **from enforcement** for the part of the salary not exceeding **HUF 60,000** (this amount used to be set at HUF 28,500). By contrast, the part of the monthly wages that exceeds **HUF 200,000 can be enforced without limitation** (this limit used to be set at HUF 142,500).

Payroll

In this article, we only highlighted the most important changes affecting labour law and payroll in the 2023 law amendments. Both the elements of the Hungarian Labour Code and the tax allowances are among the many other new developments that may affect your business. [Our payroll experts](#) are happy to provide our clients with more information about these or even the changes detailed in this article. Feel free to contact us.

→ Our expert



Marianna Fodor

Partner
Payroll
Telephone: +36 1 887 3766
marianna.fodor@wtsklient.hu

Education

- » payroll accounting
- » social security manager
- » tax advisor

Specialisations

- » payroll
- » social security
- » fringe benefit

Languages

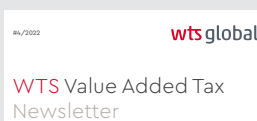
Hungarian, English

Latest publications

- » [Tax-free bicycle use](#)
- » [Family support benefits in 2021-2022](#)
- » [Personal income tax base allowances in Hungary in 2021](#)



The latest WTS Global VAT Newsletter has been released



The fourth edition of the WTS Global VAT Newsletter in WTS Global VAT Newsletter in 2022 wants to share with you insights on the latest developments in terms of VAT and GST in six countries: Italy, Poland, Romania, Brazil, China and Switzerland. You can download the newsletter in PDF format here:

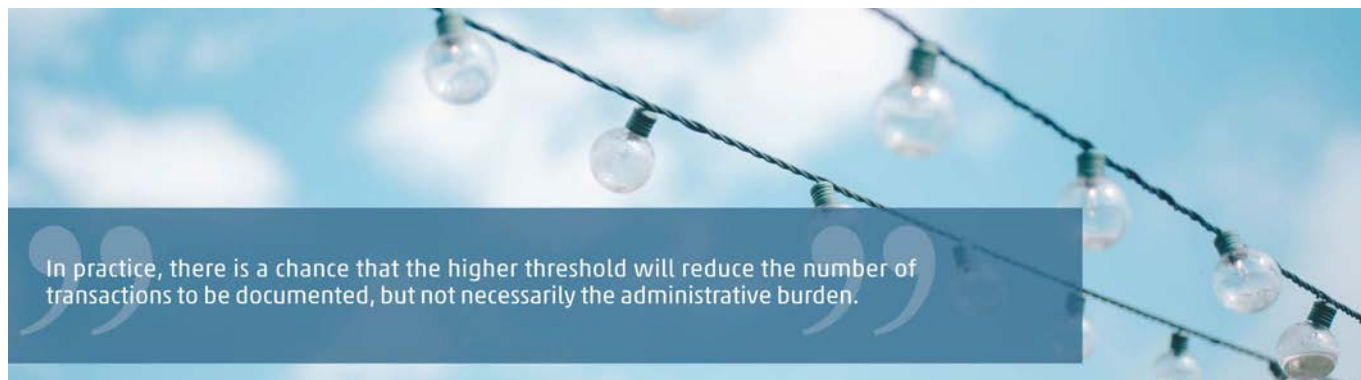
[WTS Global VAT Newsletter #4/2022](#)

New transfer pricing documentation rules

Can we expect tightening or easing this year?

Author: **Béla Kovács**

bela.kovacs@wtsklient.hu



New year, new legislation – which means that this year, just like at the beginning of every year, the focus is on changes to the tax rules. One of the most important changes affecting most Hungarian taxpayers in 2023 is the amendment of the transfer pricing documentation rules. As the deadline for preparing transfer pricing documentation and the corporate tax returns in Hungary is the end of May, the changing of the transfer pricing documentation rules will in most cases already **impact the 2022 fiscal year**. Some of the amendments already came to light [last year](#), while **Ministry of Finance Decree 27/2022 (XII.28)** on the amendment of the Ministry of National Economy Decree 32/2017 (X.18) on the documentation requirement associated with determining arm's length prices, published in the Hungarian Gazette on 28 December, answered any outstanding questions.

Scope and threshold of transactions to be documented

It was already known that the prices applied among related parties must comply with market principles, even if the given transaction was not to be included in the transfer pricing documentation. Under the previous transfer pricing documentation rules, **no transfer pricing documentation had to be prepared** for transactions with an annual transaction value of less than HUF 50 million. This **threshold** has now been raised to **HUF 100 million** (the new threshold can be applied no earlier than fiscal years starting in 2022). There is a contrary amendment here (applicable from the 2023 fiscal year) according to which **certain transactions cannot be aggregated when preparing the documentation**. Accordingly, purchases cannot be aggregated with the sale of goods manufactured from the materials purchased, nor can a transaction involving expenses be combined with a transaction primarily involving revenue. In practice, there is a chance that the higher threshold will reduce the number of transactions to be documented, but not necessarily the administrative burden.

Corporate tax base adjustment and application of interquartile range

What happens if the consideration applied by the parties is outside the arm's length range? Based on the previous rules, it was enough to make the [adjustment](#) up to the lower (minimum)

value of the market range. According to the new transfer pricing documentation rules, however, it will no longer be sufficient to make the **adjustment** to the minimum value, it **must be made to the median value** of the interquartile range including the "optimal" figures of the range. This means a greater pricing adjustment for a transaction price below the market price range, and also a higher corporate tax base and tax difference for the Hungarian taxpayer. This also indicates that the possibility of taking into account the minimum and maximum values of the arm's length range is essentially eliminated. **Applying the interquartile range is always mandatory.**

New data reporting obligation

A completely new element of the transfer pricing documentation rules is the introduction of a [data reporting obligation](#) as part of the corporate tax returns. This will apply in Hungary for the first time for tax returns filed after 31 December 2022, so even a taxpayer with a different financial year, who has just closed their 2021/2022 fiscal year, might be subject to the reporting obligation.

In all cases, transactions subject to the documentation requirement are also subject to this new reporting obligation. However, there are some transactions that are not subject to the documentation requirement, but are still **subject to the reporting obligation** (albeit with a reduced data content). Examples of such transactions include non-refundable **cash transfers** and transfers of **unchanged cost amounts** – although the legislator has granted an exemption for the latter for the fiscal year ending in 2022.

Most important facts to be reported from now on:

- transaction type (based on list set out in the decree),
- activity code,
- consideration,
- details of related parties,
- transfer pricing method

and there are additional elements to be reported for certain types of transactions (e.g. benchmark interest rate, accounting

standard applied, arm's length value or range of the profitability indicator, value of the profitability indicator actually achieved, etc.).

So as mentioned above, there is no documentation or reporting obligation for transactions below HUF 100 million per year, or for stock exchange transactions.

Violation of new transfer pricing documentation rules

Finally, and perhaps most importantly, the **fin**es for violating the obligation to provide documentation will increase significantly, from HUF 2 million to **HUF 5 million**. The maximum fine for repeated infringements has been increased from HUF 4 million to **HUF 10 million**.

Transfer pricing consulting

The [transfer pricing consultants of WTS Klient Hungary](#) have considerable experience in preparing TP 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.

→ Our expert



Béla Kovács

Director
Tax Consulting
Telephone: +36 1 887 3730
bela.kovacs@wtsklient.hu

Education

- » economist
- » tax advisor
- » certified VAT expert

Specialisations

- » tax advisory in all tax types
- » value added tax planning
- » tax authority inspections
- » preparation and reviews of transfer pricing documentation
- » due diligence

Latest publications

- » [SAF-T data reporting](#)
- » [Personal income tax refund for foreigners in Hungary](#)
- » [One story ends, another begins: the tax consequences of Brexit](#)

Languages

Hungarian, German, English



The latest WTS Global International Corporate Tax Newsletter has been released



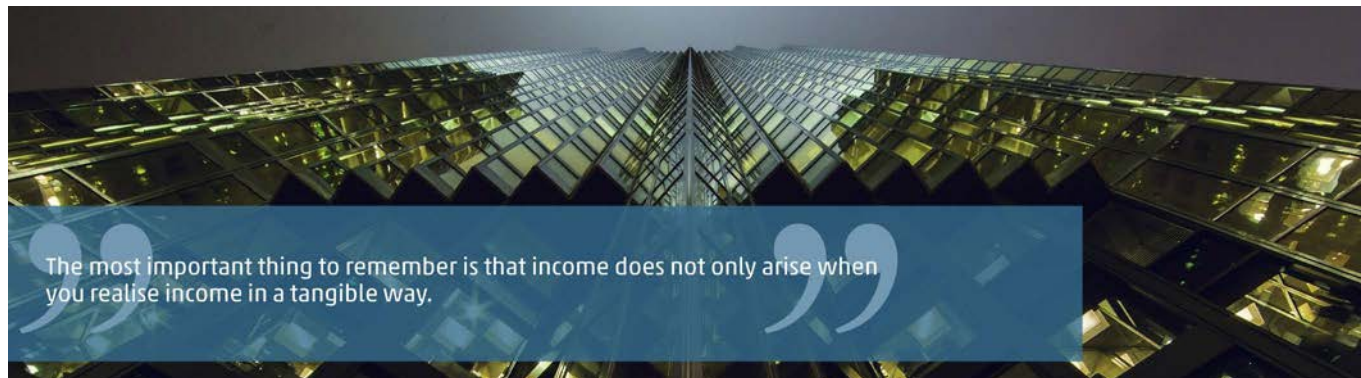
The WTS Global International Corporate Tax Newsletter #1/2023 focuses on changes in international tax law and country-specific tax law developments with respect to cross-border transactions in seven countries. You can download the newsletter in PDF format here: [WTS Global ICT Newsletter #1/2023](#)

Taxation of securities from employers

When and where are we taxed on income from employer securities in Hungary?

Author: **Ádám Pécsék**

adam.pecsek@wtsklient.hu



Securities given to employees have today become a common form of remuneration. In such cases, the employer gives its own securities to its employees at a discount or free of charge as an incentive mechanism. However, especially for individuals working in more than one country, determining the income and the associated tax burden from such securities can often be a challenging task.

What exactly do employers give?

It is important to clarify exactly what kind of scheme is involved, what the employee has acquired (e.g. an option or ownership right), as well as any conditions and restrictions on using the acquired rights. The individual schemes in Hungary may vary, and companies design the conditions of each one to ensure that employees are interested in participating.

A **share transfer** is when the employer transfers the ownership of the securities. So from this point on, employees have the right to utilise the securities and sell them at their discretion.

It becomes more complex when the employer **grants an option**. In this case, employees as the owner have no authority over the securities when the option is acquired, and they only acquire the securities when the option is exercised. A significant time can elapse between acquiring and exercising the right, as employers typically make exercising the option contingent upon a certain performance or a given length of service, for motivational purposes.

Can taxable income arise at the time of acquisition?

With a share transfer, the situation is relatively simple: **when ownership** of the securities **is transferred**, the income becomes taxable.

With an option right, however, it must be examined **upon acquiring the option** whether the right itself has a market value,

whether it is marketable, and whether the employee has acquired income upon the transfer of the right. The **inception of the taxable income is then re-assessed when the option is exercised**, and the difference between the market price and the value actually paid is determined. When analysing the points of taxation, we need to find out, for example, whether the transferred share or right has a market value, whether the right acquired is marketable.

The **legal grounds to the income** are determined by taking into account the legal relationship that otherwise exists between the parties, and the circumstances of the acquisition. When determining these grounds, we also seek an answer to whether the employer or the employee is liable for any tax advance payment.

If the employer grants call options and grants these rights exclusively to its employees in Hungary, income may arise based on the difference between the market price and the value actually paid when the option is exercised, which is considered **employment income**.

What should an employee posted from abroad look out for?

When assessing income from employment, [expat employees](#) working in different countries face a difficult task determining the state in which the tax liability arises because of the various double taxation conventions.

This reads even more true for securities acquired with an option, since there is a **so-called reference period to be considered, which is generally the period between acquiring and exercising the option**. During this period, the tax residence status and the tax liability of the wages must be examined, and where appropriate, any income realised on acquiring securities at below market price should be divided between the countries concerned.

Another point of taxation: sale of securities

The **gain on the sale** of acquired securities **constitutes a capital gain at the time of sale**. This can be both an exchange gain and income from a stock exchange transaction. [Different taxes](#) must be paid depending on the type of capital gain.

In both cases, the income is the difference between the sale price and the value of the acquisition, less the specified ancillary costs. Importantly, when calculating the acquisition value, the difference between the purchase price and the market value must be taken into account alongside the purchase price actually paid. This ensures that the same capital gain is not taxed twice.

In addition to the personal income tax on capital gains, income from exchange gains may also give rise to a social contribution tax liability in Hungary, if the employee does not verifiably pay contributions in another country.

What to look out for with foreign securities?

Capital gains are generally taxable in the country of residence. With dividend income, the source country normally retains the taxation right to a certain extent, but exchange gains and gains from stock exchange transactions are, as a rule, **taxable in the country of residence**.

That said, many countries levy special taxes on capital gains. Such taxes can include a capital appreciation tax. In practice, this means that a tax liability may be imposed on certain types of capital appreciation even if the owner of the securities has not yet realised any income from them (i.e. has not yet sold the securities).

In many countries, capital appreciation tax is linked to certain events, such as a change of residence. In this case, an **exit tax is payable in the source country, provided certain conditions are met**. Since Hungarian legislation does not currently apply this form of taxation, there may be differences compared to the laws of the source country as to which events can trigger a tax liability and on which dates. However, double taxation conventions typically also allow capital gains taxed in this way in the source country to be **exempt from tax in the other country**.

The most important thing to remember is that income does not only arise when you realise income in a tangible way.

Expat taxation consulting and compliance work, tax returns

Both different local laws and different international conventions have a significant impact on the treatment of income from different securities. This requires a great deal of care on the part of individuals in terms of tax planning and the administration that goes with tax, including the accurate completion of tax returns. WTS Klient Hungary has considerable expertise and experience regarding the [taxation of foreigners working in Hungary](#). If your company also employs posted workers, do not hesitate to get in touch with us.

→ Our expert



Ádám Pécsék

Supervisor
Tax Consulting
Telephone: +36 1 881 0607
adam.pecsek@wtsklient.hu

Education

- » economist
- » tax advisor
- » chartered accountant

Specialisations

- » compliance, preparation of tax returns in all taxes
- » VAT-registration of foreign companies and related tax consulting
- » transfer pricing, preparation of transfer pricing documentation
- » tax advisory related to international postings

Latest publications

- » [Company car tax in Hungary changing from July](#)
- » [Establishing cross-border service permanent establishments in Hungary](#)
- » [New EKAER decree from 1 January](#)

Languages

Hungarian, German

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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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- » Financial & accounting advisory
- » Accounting
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WTS Klient Business Advisory Ltd.

Registered seat: H-1143 Budapest • Stefánia út 101-103. • Hungary

Company registration number: Cg.01-09-730729

Telephone: +36 1 887 3700

info@wtsklient.hu • wtsklient.hu