



# PKF

Accountants &  
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## PKF TAX NEWSLETTER – October 2012

Our newsletter gives an overview on tax changes effective from 2013 that the Hungarian government has announced.

Insurance tax, flat tax for micro enterprises and small business tax are going to be introduced.

The government's job protection program will reduce the social contribution tax for specific target groups.

The details of the new legislation are not finalized at the time of the preparation of this newsletter.

Should you have any questions related to the current newsletter, or any other tax-related issues, please feel free to contact us

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### **Headlines:**

#### **Current**

- *New tax on the horizon: insurance tax*
- *Flat tax for micro enterprises*
- *Small business tax*
- *Reduction of social contribution tax*
- *VAT paying according to cash flow approach*

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## Current

### ***New tax on the horizon: insurance tax***

There is a new tax introduced for insurance companies that takes effect from 1 January 2013, with the following rates:

- 15% of tax base in the case of car insurance products (except for liability coverage);
- 10% of tax base in the case of property and accident insurance products.

The insurance tax will be calculated based on the insurance fees, replacing the special tax on insurance companies and the fire protection contribution. The new charge does not cover life and health insurance.

The 30% "accident tax" still remains effective on the liability coverage of car insurance.

Insurance companies are obligated to pay the tax, and they bear responsibility for any unpaid taxes (this does not prohibit them from shifting the taxes to their customers though).

### ***Flat tax for micro enterprises***

A new simplified tax is available for micro enterprises from 2013 under some conditions.

Private entrepreneurs, individual firms and unlimited liability companies will be able to choose this tax.

The choice can be registered or cancelled any time, but cannot be chosen again for two years after cancellation.

In the case of full-time entrepreneurs, the rate is 50,000 HUF / month / person, while for part-time entrepreneurs it is 25,000 HUF.

The part of the annual income above 6 million forints is taxed at an extra 40% besides the flat tax.

The flat tax exempts micro enterprises from the following taxes:

- the personal income tax and dividend tax of private entrepreneurs,
- corporate income tax,
- personal income tax, social security contributions and healthcare contribution,
- social contribution tax.

### ***Small business tax***

Small enterprises with no more than 25 employees and 500 million HUF income will be entitled to choose small business tax, where a 16% tax will be charged on the positive cash flow.

Companies have to report their choice to the tax authority electronically in the year before the application of small business tax. The following conditions must be met:

- the number of employees cannot be more than 25,
- the annual income cannot exceed 500 million HUF,
- the total assets are no more than 500 million HUF,
- the financial year is the calendar year,
- the tax number had not been suspended or deleted in the last 2 years.

The enterprise needs to qualify as a small enterprise on group level.

This tax cannot be chosen if the company has more than 1 million HUF tax debt at the same day with the reporting to the tax authority.

The tax base is the cash flow approach profit increased by payroll expenses. There are several other modifications, such as loans and advances.

The tax rate is 16% of the tax base, which exempts taxpayers from corporate income tax, social contribution tax and contribution to training fund.

### ***Reduction of social contribution tax***

In the case of employees under 25 and above 55 years, as well as unqualified employees between 25 and 54 years, the social contribution tax is going to be reduced by 14.5%. The rate for employees without a work experience under 25 years will be further reduced by 12.5% (thus eliminating the total tax) for a maximum period of two years.

There is no social contribution tax on the salaries of the previously permanently unemployed for 2 years. In the third year, there is a 14.5% discount. The same discounts apply after the maternity and child care period.

All of the above discounts apply to the part of the monthly gross salary below 100,000 HUF (~350 EUR).

### ***Cash flow approach in VAT payment***

According to the latest modification of VAT Act Companies under 125 million HUF net sales income can choose to report and pay VAT only when the related invoice is settled by their clients. Similarly, the deductible VAT can only be reported if the supplier's invoice is settled if a company chooses the cash flow approach.

The decision can be reported until the end of the year of first application or upon foundation.

The first period where the cash flow approach can be applied is the one from 1 January 2013.

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