



# PKF

Accountants &  
business advisers

## PKF TAX NEWSLETTER – June 2012

We would like to summarize some of the changes effective from 2012 that could affect our Clients' operations.

The most important modifications include the extension of reverse VAT to the agricultural sector and the possibility of tax-exempt private health insurance.

There were fundamental changes in the legislation of innovation contribution, and a so-called food chain supervision fee has been introduced.

In the case of any questions related to our Newsletter or any other tax issues, please contact:

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## Current

### ***Extension of reverse VAT to the agricultural sector***

In order to prevent fraud in the agricultural sector, the VAT Act extends reverse taxation to several agricultural products. These include: corn, wheat, barley, rye, oats, triticale, sunflower seed, rapeseed and soybean.

The amendments are effective from 1 July 2012 to 30 June 2014. If prepayment is made for the above products before 1 July 2012, reverse charges do not apply to the prepayment.

### ***Tax-exempt health insurance***

According to the Personal income tax act, private health insurance paid for the private individual is tax exempt from 2012. Several tax-exempt health insurance packages have already appeared on the market since this regulation came into force.

However, the Tax authority published its position on the issue which significantly narrows the scope of the services that are tax exempt. The Tax authority's view is that if a disease is detected before the contract, the insurance fee that covers it cannot be considered exempt. It is stated as well that if elements of probability are only marginal, the exemption is questionable. This way "manager screenings" are essentially excluded from the exemption.

We therefore suggest that private health insurance contracts are reviewed, as a tax inspection may determine that the allowance is not exempt; in this case the legal relationship between the individual and the payer will determine the taxation of the benefit. (In the case of an employee, this could mean that the insurance fees are taxed as salary)

### ***Failure to publish the annual report***

The companies whose balance sheet date is December 31 were required to publish their annual report by 31 May electronically through the government portal.

If a company failed to comply with this requirement or failed to pay the publication fee, 500,000 HUF default penalty will be imposed, and the Tax authority will order the company to fulfil its obligations within 30 days.

If the taxpayer still does not fulfil the obligations, the Tax authority will set a new deadline of 60 days (another default penalty up to 1,000,000 HUF will be imposed).

If the company still fails to comply with the legislation, the Tax authority will delete the tax number without suspension, and will initiate the termination of the company as well.

### ***Disaster management contribution repealed***

A new tax was introduced from 2012: the disaster management contribution. The contribution would be paid by companies dealing with hazardous materials.

However, a modification on 11 June 2012 repealed this legislation with retroactive effect. The first prepayment was supposed to be made by 30 June, but this liability is therefore no longer due.

### ***Food chain supervision fee***

The companies operating in the fields subject to food chain supervision will be subject to food chain supervision fee from 2012.

The National Food Chain Supervisory Office website published a table that lists the activities subject to the fee. This includes especially

agricultural services and the manufacturing and trading of food and feed.

The companies carrying out the above activities are required to report food chain management contribution by June 30. The fee is payable in equal instalments due on 31 July and 31 January.

The fee is 0.1% of the previous year net revenue from the activities subject to the contribution. Excise duty and public health product tax may be deducted the contribution. Micro and small enterprises can choose to pay 20,000 or 700,000 HUF lump sum annual contribution, respectively in case they only sell products to end customers.

### ***Changes in innovation contribution***

There were several changes in the legislation of innovation contribution from 2012. Among others, the range of companies subject to the contribution is broadened and there is no longer an option to decrease the liability.

Small and micro enterprises are still not subject to the contribution, so if the number of the employees is below 50 and the net revenue or the total assets are no more than 10 million Euros, the enterprise does not need to pay innovation contribution. However, the classification of the enterprises from 2012 is performed at group level (i.e. together with partner and related entities, including foreign group members as well), according to the Act on small and medium enterprises.

Because of these changes, it is recommended to review the position of the companies that were

not formerly subject to innovation contribution. (The affected companies had to first report and pay prepayment before 20 April.)

Another significant change is that the innovation contribution liability can no longer be decreased.

### ***Limitations to payments in cash***

In the case of transactions between unrelated parties where cash payment exceeds 2,000,000 HUF the company receiving the payment is required to report it to the Tax authority from 2012 (the former limit was 5,000,000 HUF). The limit for related parties is still 1,000,000 HUF.

Companies that are required to have a current account are not permitted to make cash payments in excess of 5,000,000 HUF/month/contract from 2013.

### ***Local business tax deduction***

A Supreme Court ruling declared that no corporate income tax difference could have been determined due to the deduction of local business tax based on the fact that a company had tax debt on one tax account, while there was no overall tax debt at any tax authority.

We therefore suggest that the companies reconsider whether the previously not deducted local business tax could decrease the corporate income tax base for 2006, or whether any penalties determined based on this legislation could be appealed.

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