PKF

Accountants &
business advisers

PKF Tax Newsletter – January 2012

We would like to provide a concise summary to our readers about the tax changes from 2012 that will affect the business operations in Hungary.

The most important changes include the increase of VAT rate to 27%, the elimination of the tax credit scheme and the decrease of the personal income tax under 202,000 HUF monthly.

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

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Current issues

Corporate income tax

Tax rate

The rate of corporate income tax will not be reduced to 10% from the current 19% above 500 million HUF tax base from 2013. (The rate is already 10% below the 500 million HUF limit.)

Deferred losses

Deferred losses can only be offset against the profits up to 50% of the tax base.

In the case of a transformation, the successor can only use the deferred losses if the majority shareholder of the successor had the same share in the predecessor, and the successor accounts revenue from at least one of the predecessor's activities for at least two years.

A company can only use its deferred losses from previous periods in case its shares are sold:

- If the seller and buyer of the shares are related companies for at least two years before the sale; or
- The buyer or the purchased company is listed; or
- The company whose shares are sold resumes the same activity for at least 2 years, and accounts revenue in both years.

Tax saving schemes in connection with royalties

From 2012, the profit from the sale of a "registered intangible" will be exempted from corporate income taxation if the intangible is held for at least one year. The legislation applies to intangibles on which royalty can be charged. In order to take advantage of this exemption, the intangible needs to be registered at the Tax office within 60 days from the acquisition.
This is similar to the already existing "registered participation" scheme, where the sale of a share registered at the Tax office and held for at least one year is exempt from corporate income tax.

If a company sells or otherwise disposes of an intangible that is not registered (on which royalty can be charged), the tax base can be decreased by the profit if a pledged reserve is created. This reserve has to be spent on another intangible within 3 years.

Personal income tax

Tax base

The 27% tax base addition does not apply to the part of the annual tax base below 2,424,000 HUF. This means that the actual PIT rate is 16% up to a monthly salary of 202,000 HUF, and 20.32% on the part of the salary above the limit.

The tax credit that ensured the exemption of the minimum wage is no longer available.

Non-cash benefits

The formerly exempt fringe benefits are now subject to a 10% healthcare contribution (the PIT remains 1.19×16%). The overall limit to these benefits is 500,000 HUF. The fringe benefits subject to the favourable taxation include:

- "Széchenyi Recreational Card" with the following annual limits:
    - Accommodation account: 225,000 HUF;
    - Hospitality account: 150,000 HUF;
    - Leisure account: 75,000 HUF;
- Hot meal voucher up to 5,000 HUF monthly.

Representation and business gifts are taxable at 51.17%. There is no limit on the value of business gifts.

Social security

The contribution to the Health Insurance and Labour Fund payable by the employee has been increased to 8.5% from 7.5%. The contribution to the Pension Fund remains 10%.

Value added tax

The rate of value added tax has been increased from 25% to 27%.

The VAT on car rental fees is now deductible.

Rules of taxation

The tax and default penalties have been significantly increased, as follows:

- The tax penalty is now 200% if the tax difference is due to hidden income or falsified records;
- The discounted 20% tax penalty is no longer available for qualified taxpayers;
- The default penalty for the failure to prepare transfer pricing policies can be as high as 8 million HUF per policy in the case of repeated failure.
- If a company fails to submit its annual report to the Registry court, the maximum penalty is 500,000 HUF. However, if the company still does not submit the annual report after the first warning, another penalty may be imposed up to 1 million HUF.

Other changes

- The sale of real property between related companies is now exempted from transfer duty.
- The rate of simplified entrepreneurial tax ("Eva") has been increased to 37%, and the annual limit of income is now 30 million HUF.
- The development subsidies and tuition expenses are no longer deductible from the contribution to the Training Fund. The frequency of prepayments is now monthly.
- R&D expenses are not deductible from the innovation contribution.
- A new "car accident tax" has been introduced; it is 30% of the mandatory insurance fee of the car.
- Any company may choose a fiscal year different from the calendar year, if it is reasonable due to the business cycles or the information needs of the parent company.