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# THE TAX SHOOTER

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## TAX LAW CHANGES IN HUNGARY

*The tax policy of the new government is intended to be set up in two main steps. As a first stage, the government's main objective was the short-term stabilization of the state budget in order to offset the adverse effects of the global recession. As a second step, the long term intention is the transformation of the current tax system and the foundation of a more competitive, fair and business-friendly tax environment.*

*In short term, the aim of the amendments are to ease the employers' burdens and to favour employees with the increase of the annual income bracket. The idea of budget stabilization appears in increasing and differentiating the VAT rate – which may be regarded as the most serious step of the current package.*

*As a general rule, modifications entering into force in 2009 – except for VAT – may be characterised as having minor importance, however it introduces the major transformation of tax system as from the beginning of 2010.*

*The next year – given the newest draft act compiled by the Ministry of Finance – would result in significant changes throughout the tax system that would have important effect both on corporate entities and private individuals.*

*We have summarized the above tax policy changes for you and hoping that it would raise further questions in your mind. In this case, please do not hesitate to contact us.*

Warmest regards,



Dr. Arne Gobert

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## 2009 – THE YEAR OF CONSOLIDATION

On 11 May 2009, the tax law amendments concerning the current year have been accepted by the Parliament, and the majority thereof will enter into force during 2009.

### 1. PERSONAL INCOME TAX AND SOLIDARITY SURTAX FOR PRIVATE INDIVIDUALS

Change in the tax table: the annual income bracket will be increased with retroactive effect to January 1, 2009, however the tax rate would remain unchanged as regards 2009.

Annual income bracket	Tax rate
HUF 0 – 1.900.000	18%
In excess of HUF 1.900.000	36%

The solidarity surtax for private individuals remains unchanged, therefore in excess of HUF 7.446.000 the private individual will still be subject to a 4% additional charge.

### 2. TAX LAW CHANGES RELATED TO CORPORATE ENTITIES

#### 2.1. SOCIAL SECURITY CONTRIBUTIONS TO BE PAID BY THE EMPLOYER

Within the meaning of the new amendments, as from July 1, 2009, the social security contributions to be paid by the employer will be decreased by 3 percentage points as regards the double amount of prevailing minimum wage (i.e. HUF 143.000). So, the social security contributions levied on employees' wages and payable by employers will be as follows:

Income bracket	Contribution rate
HUF 0 – 143.000	26%
In excess of HUF 143.000	29%

#### 2.2. UNEMPLOYMENT INSURANCE CONTRIBUTION TO BE PAID BY THE EMPLOYER

The unemployment insurance contribution of employers will be reduced by 2 percentage points. The method of the reduction of unemployment insurance contribution is the same as presented relating to social security contributions.

Income bracket	Contribution rate
HUF 0 – 143.000	1%
In excess of HUF 143.000	3%

### 2.3. CORPORATE INCOME TAX AND SOLIDARITY SURTAX

There will not be significant changes throughout 2009 as regards corporate income tax. The tax rate remains 16%. The new act includes only two amendments regarding tax base modifying items: there are changes concerning unrealized exchange rate and extraordinary tax depreciation.

As regards 2009, the 4% solidarity surtax will remain the same either for corporate entities.

### 2.4. VALUE ADDED TAX

The standard rate of VAT will be increased from 20% to 25% as of 1 July 2009. However, in accordance with the proposed amendments, a preferential rate of 18% will be applicable for dairy and bakery products, and – if approved by the European Commission – for distance heating services.

As a consequence of the modification in VAT rates, special attention have to be paid as regards both invoices issued and received and the separation of transactions subject to old and new regulations. As a general rule, new rates shall be applied to transactions carried out after 30 June 2009.

### 2.5. EXCISE DUTIES

The excise duty rates will be increased as of 1 July 2009, but a second increase in tax rates is planned from the beginning of next year.

## 2010 – PRELUDE TO THE TRANSFORMATION

During May, the government submitted the draft act on tax law amendments planned as of January 1, 2010. The draft contains relevant changes in tax regulations as published in several press releases throughout the last months.

## 1. PERSONAL INCOME TAX AND SOLIDARITY SURTAX FOR PRIVATE INDIVIDUALS

As from January 1, 2010 the system of personal income taxation would be significantly reformed, relevant modifications are expected as regards the tax base, fringe benefits and tax allowances.

The tax base would be increased by a tax base increasing item. In this sense the tax base would include not only the gross income of the private individual, but also the social security contributions paid by the employer. This would result in a 27% increase in the tax base.

The annual income bracket would be increased to HUF 5.000.000 and tax rates would be decreased as follows:

Annual income bracket	Tax rate
HUF 0 – 5.000.000	17%
In excess of HUF 5.000.000	32%

The amount of tax credit would be increased to HUF 15.100, accordingly the upper limit of income would be increased to HUF 3.188.000 and would be capped at HUF 4.698.000. In excess of this latter amount the taxpayer would not be entitled to take the tax credit.

The regulations of the so-called cafeteria-system would also be transformed. It would include only the holiday check, hot meal vouchers, tuition costs taken over by the employer, education allowance, local season tickets. These items would be taxable at a 32% preferential rate if not exceeding HUF 400.000 a year.

The tax allowances would be abolished except for family incentives and allowances relating to long-term savings.

The upper rate of the personal income tax would include the former 4% solidarity surtax for private individuals.

## 2. TAX LAW CHANGES RELATED TO CORPORATE ENTITIES

### 2.1. SOCIAL SECURITY CONTRIBUTIONS TO BE PAID BY THE EMPLOYER

As of January 1, 2010, the contribution rate would be fixed at 27% regardless of the employee's income. The health care contribution of HUF 1.950 payable by the employers would be abolished as of 2010.

### 2.2. UNEMPLOYMENT INSURANCE CONTRIBUTION TO BE PAID BY THE EMPLOYER

The unemployment insurance contribution paid by employers would be reduced by 2 percentage-points, the tax rate would be 1% regardless of the employee's income.

### 2.3. CORPORATE INCOME TAX AND SOLIDARITY SURTAX

The CIT rate would be increased by 3 percentage points, from 16% to 19%.

The tax base adjusting items would be modified significantly. Several tax base decreasing items would be abolished, for example: the amount of local business tax accounted for as expenditure, the income deriving from goods and assets received without reimbursement. Simultaneously, the tax base increasing item concerning goods and assets provided without reimbursement would also be abolished.

The regulation relating to existing tax base adjusting items would also be significantly modified regarding development reserve, participation exemption, R&D expenses, dividends received, corrections relating to arm's length price, thin capitalization, etc.

Simultaneously with the raise of CIT rate, the 4% of solidarity surtax would be abolished with the same effect. With regard to the fact that tax base for corporate income tax and solidarity surtax are nearly the same, the proposal would finally mean a 1-percentage-point decrease in corporate tax burden.

## THE UNINVITED NOVELTY – WEALTH TAX

The wealth tax would be levied on high value real estates, water and aircrafts and high-performance cars.

The real estate tax would be assessed on a progressive base and it would be levied only on real estates the value thereof exceeds HUF 30 million. The tax rate would be as follows:

Value of the real estate	Tax base	Tax rate
up to HUF 30 million	-	-
HUF 30-50 million	whole market value	0,35%
in excess of HUF 50 million	up to HUF 50 million in excess of HUF 50 million	0,35% 0,5%

## TAX SERVICES OFFERED BY GOBERT, FEST & PARTNERS ATTORNEYS AT LAW

Our tax service line includes the below mentioned areas:

- corporate income tax, international tax planning,
- direct tax consultancy services,
- taxation of private individuals,
- tax reviews, due diligences,
- reconciliation with authorities, legal assistance in tax disputes (tax litigation),
- other tax consultancy services.

### CORPORATE INCOME TAX, INTERNATIONAL TAX PLANNING

- tax structuring, international tax planning services,
- overall tax consultancy services as regards cross-border transactions,
- reviewing the contracts and documentation of domestic and international transactions based on the effective tax regulations,
- tax consultancy services with regard to tax incentives,
- reviewing transactions on the basis of double taxation treaties,

### DIRECT TAX CONSULTANCY SERVICES

- tax consultancy services as regards value added tax issues,
- elaborating the VAT consequences of unique business transaction,
- general tax consultancy services including customs issues.

### TAXATION OF PRIVATE INDIVIDUALS

- personal income tax and social security contributions consultancy services,
- tax planning for private individuals, elaboration of tax efficient structures,
- tax consultancy services as regards both Hungarian and expatriate employees,
- optimizing the tax consequences of benefits provided by employers,
- providing assistance to private individuals in the preparation of tax returns, representation throughout proceedings in front of tax authorities,
- assistance in audits scanning the circumstances of fortune increases at private individuals, coordination of such audits, representation in front of tax authorities.

### TAX REVIEWS, DUE DILIGENCES

- internal (in-house) audits as regards either every type or certain types of taxes, reviewing the settlement of tax liabilities,
- exploration of tax risks, providing assistance in the treatment thereof,
- elaboration of possibilities for tax optimization,
- analysis of the possible results of a Tax Authority audit,
- review of documentations prescribed by the effective tax provisions,

### RECONCILIATION WITH AUTHORITIES, LEGAL ASSISTANCE IN TAX DISPUTES (TAX LITIGATION)

- legal representation in the course of proceedings carried out by state and local tax authorities,
- legal representation of clients in tax litigations including Supreme Court proceedings,
- reviewing documents created in the course of tax procedures (protocol, first and second instance decisions),
- review and preparation of necessary appeals and other requests.

### OTHER TAX CONSULTANCY SERVICES

- general tax consultancy services covering all types of taxes,
- review of various contracts from taxation point of view,
- preparation of internal tax regulations, screening the existing ones,
- preparation of legal guidelines as regards unique, taxation topics.

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