

Further changes to the main tax types

PAGE 1/5 DECEMBER 2015

Dear Clients,

This Newsletter is to inform you about the further tax amendments relating to 2016 which were published on 27 November 2015 in the Hungarian Official Journal. Please also note that we summarized the main changes in our mailingLeitner Newsletter in July which can be accessed via the following [link](#)

We only address below the new or amending provisions.

Personal income tax amendments

Beyond the personal income tax amendments for 2016 (decreasing tax burden, support for taxpayers who newly return to the social security pension scheme, enticing taxpayers to bring back to the country untaxed income accumulated abroad), which were codified in June 2015, the November tax package contains additional administrative simplifications regarding personal income tax payment.

Declaration substituting the tax return, tax return proposal

Individuals who in the given tax year received regular income only from their employer and who have not taken advantage of any tax allowance in a more simplified way than earlier may submit a so-called **tax return declaration** regarding income received in 2015.

The Hungarian Tax Authority will prepare the tax return by 20 May based on the individual's declaration filed to the employer until 31 January in the year following the tax year. Should the Tax Authority find no difference from the interim data reporting by the employer(s), the individual has no further tasks to do. But if there is a discrepancy, the Tax Authority issues a resolution to establish the tax difference. If the tax difference arises from the employer's incorrect tax / advance tax assessment, then the tax penalty and the late payment penalty will be directly levied on the employer.

The Tax Authority also reports back if the individual has submitted a tax return declaration wrongly, without meeting the relevant criteria. In this case, self-revision may be performed by the individual to correct the tax assessed by the Tax Authority. If there is no self-revision, the Tax Authority performs subsequent assessment to establish the tax difference between the assessed and the actual tax liability for the individual.

The **option of the so-called tax return proposal** is available from 2017 (first, for income earned in 2016) to individuals who did not request an employer tax assessment or whose employer was not willing to undertake this issue, and who did not file a tax return declaration. In such cases, the Tax Authority would prepare the individual's „tax return proposal“. This option is available to users of the electronic client gate or having special electronic access to the authority's system.

The Tax Authority prepares and sends the tax return proposal electronically from March 15 of the year following the given tax year. Should the taxpayer disagree with the data presented in the proposal, he/she can correct or amend them. The deadline for accepting the proposal will be 20 May of the year following the given tax year. By accepting the proposal electronically, the taxpayer's tax return filing obligation is fulfilled.

PAGE 1

Personal income tax amendments

Changes on corporate income tax

Changes to local business tax

Changes regarding value-added tax (VAT) and invoicing

Changes on other tax types

Further changes to the main tax types

PAGE 2/5 DECEMBER 2015

Beyond the above, tax returns may still be prepared and filed within self-assessment.

Benefits provided within the Employee Stock Ownership Plan (ESOP)

Due to the changes, the Employee Stock Ownership Plan can also be launched for managing financial assets obtained in a new form of employee participation, the so-called remuneration policy. Moreover, members of the ESOP will be obliged to pay tax only upon the sale of financial assets obtained within the framework of the remuneration policy but not upon the acquisition of securities.

Other amendments

Next year the threshold for the option to apply for the automatic six months of instalment payments without any interest will be raised to HUF 200 000 outstanding payment. Penalty treatment by the Tax Authority will also more favourable to taxpayers: no penalty will be levied in the first instance for failure to submit a tax return or declaration; instead the Tax Authority will issue a reminder, with an extended deadline, to comply with the obligation.

Changes on corporate income tax

The rules on corporate income tax were also amended by the salad act in November.

Rules amending the Tax Credit for Growth

In our July Newsletter we already reported on **tax credit for growth** as a possibility to defer tax payment. The latest amendments make the rules relating to the tax credit repayment schedule more precise. Deferred tax will have to be paid in practice quarterly, during two years with a six months grace period starting from the third quarter of the subsequent year. The rules on the tax base decreasing and increasing items that can be taken into account in the tax year for the calculation of tax credit for growth have also been defined more concretely.

If the taxpayer engages in fixed asset investment or increases its employee headcount, the tax credit for growth becomes a tax allowance: the amount of the deferred tax not yet due can be reduced by 19% of the preferential investment, but maximum by 90% of the amount of the tax falling on the tax credit for growth not yet due.

If the taxpayer may no longer apply the preferential rules relating to tax credit for growth, the amount of the tax credit yet outstanding will become due in one lump sum.

Associations for performing art

The definition of the **Associations for performing art** will be slightly modified in order to ensure conformity with the EU sponsorship rules, without separate Commission approval. Double sponsoring limits will now be in place based on which the total amount of donations shall not exceed 80% of the annual revenue of the association realized from ticket sales in the current year and it may not exceed HUF 1.5 billion.

PAGE 2

Personal income tax amendments

Changes on corporate income tax

Changes to local business tax

Changes regarding value-added tax (VAT) and invoicing

Changes on other tax types

Further changes to the main tax types

PAGE 3/5 DECEMBER 2015

Employee Stock Ownership Plan (ESOP)

The tax base calculation rules will change for ESOP organisations due to the increasing and decreasing items of **pre-tax profit**. On the one hand, pre-tax profit decreases by the amount paid by the participants as own resources, by the amount transferred by the company employing the participants and by payments made by the participants or other persons. Other decreasing items include revenue from the sale of securities received by the ESOP organisations that manage the financial assets or from conversion of the securities into cash. On the other hand, the pre-tax profit of the ESOP is increased by the expenses related to securities or to their management, and to their conversion into cash.

Changes to local business tax

It is good news for the logistics and transportation sector that **toll deductibility** will be extended. As a result, in addition to expensing all toll fees abroad and in Hungary, 7.5% of the toll fees can also be deducted from the local business tax.

Local municipalities may encourage research and development activities carried out in their territory by **R&D tax incentive**. In addition to the already applicable deductibility of R & D costs from the tax base, a 10% tax incentive may be used. The municipality may decide in a decree on the introduction of the above incentive.

It results in **decreasing administrative burden** that in the future no tax return is to be filed if the taxpayer has no tax payment liability. From 1 January 2017, the taxpayer operating in the territory of more than one municipality may fulfil its tax filing obligation through the general form filing program by completing the filing form electronically and submitting it to the Hungarian Tax Authority.

Changes regarding value-added tax (VAT) and invoicing

Periodically settled transactions

Transactions falling under periodical settling include all continuously supplied services, such as lease, cleaning, bookkeeping or supply of goods (car industry, food industry, trade in medicines, etc.) where the parties apply periodical – e.g. monthly, quarterly – settling. Up to now, in such cases the due date of payment was the VAT point date of the transactions, but as of July 2015, the rules relating to bookkeeping, tax advisory and auditing services have changed, which shall apply to all periodically settled transactions from 2016.

As planned earlier, the new rules will become general **as of January 2016** and from that date they will be applicable to **all periodically settled transactions**.

As a general rule, the date of supply is the last day of the period falling under periodic settlement/payment, however, exceptions from this general rule will probably be applied even more frequently. The date of supply is the invoice's date of issue if the invoice's date of issue and the due date for the payment of the consideration are both before the last day of the period concerned. Deferred tax payment (**maximum 60 days**) continues to be applied if the due date for the payment of the consideration is later than the last day of the period concerned.

PAGE 3

Personal income tax amendments

Changes on corporate income tax

Changes to local business tax

Changes regarding value-added tax (VAT) and invoicing

Changes on other tax types

Further changes to the main tax types

PAGE 4/5 DECEMBER 2015

Change in the right to deduct VAT

VAT deduction right can only be exercised in the VAT period in which the deductible VAT was charged. As a restriction, however, from 2016 only **VAT charged in the current period or pre-charged in the preceding the year can be deducted within the framework of the normal VAT return**. In all other cases, VAT deduction can be exercised by means of self-revision.

VAT refund deadline

The tax refund deadline will change hand in hand with the classification of taxpayers which the Tax Authority applies. As of 2016, the 75-day VAT refund deadline cannot be shortened for taxpayers classified as „risky”, whereas other taxpayers may take advantage of the significantly shorter deadlines of 30 or 45 days under the already known circumstances.

Other changes

It is not be mandatory in the future to issue an invoice for air passenger services unless it is specifically requested by the purchaser of the service. Even in this case, it will still be indispensable to issue an accounting document.

Companies owned by the state or by a local municipality can participate in a **VAT group**.

Changes in the rules regarding invoicing

The requirements relating to invoicing programmes will be extended from 2016, the most important change being **data export**. Next year, each invoicing program must have a function called **data supply for tax authority auditing**. **It is a function which is built into the system and operates independently and which is suitable for exporting** data on invoices.

Data export means that data on the invoices issued from 2016 must be provided to the Tax Authority at its request, in the data structure specified in a decree, relating to a specified period or to a given serial number range.

Since data export is needed within the tax authority audit, therefore data supply obligation occurs only on ad hoc basis. Although - apart from that - the idea to ensure online connection of invoicing programs to the Tax Authority has also been raised.

Data export is not mandatory for invoices issued prior to 1 January 2016 (except in connection with the modification or annulation of an invoice issued earlier), but the taxpayer may opt for applying this function even to invoices issued before 2016. The invoicing programs must however be able to perform data export from 1 January 2016 and the user document (which does not necessarily have to be in Hungarian) must contain the description of the given function.

PAGE 4

Personal income tax amendments

Changes on corporate income tax

Changes to local business tax

Changes regarding value-added tax (VAT) and invoicing

Changes on other tax types

Further changes to the main tax types

PAGE 5/5 DECEMBER 2015

Changes on other tax types

Amendment to the Act on Duties

Reliable taxpayers are exempted from the duty payment obligation in a preferential instalment payment procedure.

If the taxpayer acquiring a **historic building** starts its **renovation** within one year and completes it within five years, the acquisition of the building classified as a historic monument and declared to be protected will become exempt from duty payment in the form of refund of duties.

Transfer of **buses, towing trailers and trucks** by a business entity does not give rise to duty payment. In addition to purely electrical vehicles other „environmentally friendly“ vehicles will also be exempted from duty payment.

Changes regarding environmentally friendly vehicles

On top of the above-mentioned **duty exemption**, additional favourable rules will apply to environmentally friendly vehicles. The **registration tax** on purely electrical vehicles, increased range plug-in hybrid vehicles, plug-in hybrid vehicles and zero emission vehicles will be HUF 0. Similarly, the **vehicle tax** rate on electrical and gas-powered vehicles will drop to HUF 0.

Food supply chain supervision fee

Based on the procedure initiated by the European Union, the rules on the rate of **food supply supervision fee** will change. Progressive fee rates will be abolished and replaced by a uniform rate of 0.1%. As a general rule, it will be established on the basis of the previous calendar year's net turnover/revenue subject to supervision fee - calculated excluding public health product tax and excise duty. The fee is to be paid as one lump sum from 2016, of which earlier payments will be deductible.

Transitional rules will apply to those taxpayers who – practically as a result of suspension by the European Union – failed to or did not fully comply with their obligation to pay the food supply chain supervision fee for 2015. They can submit or correct their declaration based on the revenue/turnover of the 2014 calendar year until 30 December 2015, and pay the fee in one lump sum, without late payment charge, until 31 January 2016.

For further information, please contact:

Siklós Márta
T +36 1 279 29-30
E marta.siklos@leitnerleitner.hu

Jancsa-Pék Judit LL. M.
T +36 1 279 29-46
E judit.jancsa-pek@leitnerleitner.hu

dr Rác Nóra
T +36 1 279 29-48
E nora.racz@leitnerleitner.hu

Juhász Márta P LL. M.
T +36 1 279 29-36
E marta.juhasz@leitnerleitner.hu

dr. Menczel-Kiss Gellért
T +36 1 279 29-30
E gellert.menczel-kiss@leitnerleitner.hu

Balázs Péter
T +36 1 279 29-30
E peter.balazs@leitnerleitner.hu

PAGE 5

Personal income tax amendments

Changes on corporate income tax

Changes to local business tax

Changes regarding value-added tax (VAT) and invoicing

Changes on other tax types