PS NEWSLETTER

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ON PAYROLL-RELATED CHANGES OF TAXATION — JANUARY 2019

The recently accepted changes in taxation have a significant impact on payroll related taxes, effective as of 1st January, 2019. In this newsletter we provide a brief summary of the changes which we consider to be the most relevant.

I PERSONAL INCOME TAX

There shall be a significant modification concerning fringe benefits, certain specific benefits and tax-exempt revenues from 1st January 2019.

As a **fringe benefit**, only the amounts paid to the three accounts of Széchenyi Recreation Card shall continue to be available with the same annual threshold. The tax base is the value of the benefit.

Most of those benefits which are subject to preferential taxation or are tax-free in 2018, will be **taxable as income** from 2019. Such benefits (inter alia) are:

- cash benefit
- local travel pass
- school-start support
- insurance taken out by the employer for the benefit of the individual
- product or service given to every employee with the same value or based on internal policy
- mortgage support
- housing allowance for mobility purpose
- support for student loan repayment
- the risk insurance (even the previously tax-free part)
- tickets for sport or cultural events

The range of the **specific benefits** will be limited to some elements, such as

- amounts paid for voluntary mutual insurance funds for target-specific services
- amounts paid above the annual recreational amount limit
- corporate mobile phone
- meals or other services during business trips

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- representation, business gift, expenses covered by the payer in connection with any event organized for several individuals (including business partners)
- gifts of minor value once a year – in contrast to the three times applicable until now –, up to 10% of the minimum wage.

The tax base of specific benefits is **their value** multiplied **by 1.18.**

The reimbursement of kindergarten and nursery services remains **tax free** with an administrative facilitation: the benefit will be reimbursable without a tax burden even if the invoice is issued for the name of the individual and not for the employer.

The **costs of the employer** regarding the above benefits will be as follows from January, 2019:

Fringe benefits

- tax base: value of the benefit
- **tax burden: 34.5%** (15% personal income tax, 19.5% social contribution)

Specific benefits

- tax base: value of the benefit multiplied by 1.18
- **tax burden: 40.71%** (15% personal income tax, 19.5% social contribution multiplied by 1.18)

Benefits taxed as income

- tax base: value of the benefit
- **tax burden: 81.95%** (including deductions and employer's costs)

Property leasing

In accordance with the modified legislation, the payer does not need to assess tax advance after income from property leasing, if the lessor individual declares that he wants to take into account in the course of the assessment of his revenue the rental fee of the property he rents in an other city for more than 90 days.

Tax advance statements

From next year, individuals will be able to make their tax advance statements through their personal client-gate. The authority will forward these statements electronically to the employers. If the individual makes a statement electronically and also in written form, the employer has to take into consideration the written statement.

II SOCIAL SECURITY, SOCIAL CONTRIBUTION TAX

One of the most significant changes is the modifications of the social contribution's legislation.

As of 1 January, 2019, the act on **health contribution will be repealed**, the health contribution will be integrated into social contribution tax. Those incomes which are subject to 14% health contribution this year, will be subject to social contribution tax - such as (inter alia):

- fringe benefits
- capital gains
- dividends
- income withdrawn from business account
- incomes from securities lending operations

The social contribution tax shall be paid on in kind benefits as well.

The tax burden will be **19.5% uniformly**.

In case of fringe benefits, specific benefits, and incomes from interest rate discounts, 19.5% of the amount of benefits shall be determined as a tax base.

No tax liability will be created for payers with respect to pensioners in their own right employed in employment relationship pursuant to the Labour Code. Incomes received from renting out real estate are also exempt from this tax liability.

Tax allowances

Some of the social contribution tax allowances will be eliminated as of 1 January, 2019, such as tax allowances incurred on employment of under 25 years and above 55 years for example, but new allowances will be introduced instead.

Allowances which can be claimed in 2019 are:

- tax allowances for those working in fields not requiring specialist qualifications and those employed in agriculture – the allowance is the 50% of the tax burden after the gross salary, with the assumption that the gross salary (tax base) is not more than the mandatory minimum wage
- tax allowances for those entering the labour market – the allowance is the 50% of the tax burden after the gross salary, with the assumption that the gross salary (tax base) is not more than the mandatory minimum wage in the first two years of the employment.

- tax allowances for women raising three or more children and entering the labour market – the allowance is the 100% of the tax burden after the gross salary, with the assumption that the gross salary (tax base) is not more than the mandatory minimum wage in the first 3 years of the employment, and maximum 50% of the tax burden after the mandatory minimum wage in the 4th and 5th year of the employment

- tax allowances for employees with a reduced capacity to work- the allowance is the 100% of the tax burden after the gross salary, with the assumption that the gross salary (tax base) is not more than the double of mandatory minimum wage

Further tax allowances can be claimed on persons in public employment, and on the employment of research workers.

According to the new legislation, an **entrant to the labour market** shall be a person who, according to the data available to the state tax and customs authority, in the course of 275 days preceding the month of the beneficiary employment had employment involving insurance obligation pursuant to the Social Security and Private Pension Act for not more than 92 days.

Retired employees

As of 1 January 2019, pensioners in their own right employed in employment relationship pursuant to the Labour Code, are not obliged to pay the 4% health contribution and the 10% pension contribution, just as already exempted from the 3% health contribution and 1.5% labour market contribution. This means that the only **tax liability** of these employees after their income is the **15% personal income tax.**

The above also means that these employees will not be insured regarding their employment relationship.

III OTHER

The amount of minimum wage and minimum guaranteed wage in 2019 are not determined yet. The government decision will probably be made later in the autumn enaction period.

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