



ps

PS NEWSLETTER

2 January 2020

TAX LAW CHANGES FROM 2020 — HUNGARY

In line with the practice of the last few years, the changes that came into force on 1st January 2020 had been approved by the Parliament in several steps.

In this short newsletter, we summarize the most important changes in headlines. Some of the changes that have already been accepted will only come into effect in the summer of 2020 or later, but as they may require more preparation, we will briefly cover these ones as well.

I PERSONAL INCOME TAX

Investments

A new concept similar to the fiduciary asset management contract is introduced this year, the private foundation. The private foundation is a foundation that can manage the property and the yield made available by individual members.

From 2020 a fiduciary asset management and a private foundation can also keep long-term investment account. Irrespectively of the contracting party is a private person, a fiduciary asset management or a private foundation, the tax benefit is the same. After passing the first 3 years the tax burden is 10% on the yield, after 5 years it is tax free.

Tax relief for mothers with at least 4 children

Mothers with 4 or more children can qualify for tax deduction on wages, and certain other income. The tax base allowance available equals the amount of income, in other words they can get exemption from the tax if they exercise the option. However, the benefit is not automatic, the application must be reported to the tax authorities.



process
solutions

www.ps-bpo.com

Benefits include, but are not limited to, income from employment, executive pay, entrepreneurial withdrawal and income based on an engagement contract.

Allowances for special sport events

In particular in the context of the European Championship, which will take place partly in Hungary in 2020, certain benefits granted to individuals employed by UEFA or other international organizations or obtained through sports diplomacy shall be tax exempt. Such benefits are among others the fringe benefits, uniforms, accommodation and promotional gifts.

Mandatory minimum wage and minimum wage for qualified workers

According to the agreement between the government, the employers and the employees the minimum wages have been also increased by 8% from 1st January 2020. The minimum wage will be HUF 161 000 and the minimum wage for qualified workers will be HUF 210 600.

II SOCIAL CONTRIBUTION TAX

From 1st July 2020 the current Pension contribution, in-kind and monetary Health insurance contribution and Labour market contribution are merged and there will be only one „super contribution“ in force called Social contribution tax. The tax rate will be 18.5%.

In case of employment relationship this will not represent an increase in the tax burden, but for legal relationships not subject to Labour market contribution before, as result of this change there will be an increase by 1.5%. At the same time it opens the eligibility for job search allowance. This will mainly affect the individuals receiving engagement fee, not full-time entrepreneurs and the primary agricultural producers.

At the same time, the aggregation of contributions may widen the eligibility for family contribution allowance for those entitled to it.

III TRAINING FUND CONTRIBUTION

As of 1st January 2020, a new Act on specialized training will enter into force. Although it puts the burden on companies who are employing skilled workers but does not represent a major change for most employers.

The base of the contribution remains the same as the base of the social contribution tax and the tax rate of 1.5% also remains unchanged

Advance payment will be required for the first 11 months of the year. The annual obligation shall be determined by 25th February following the tax year and the difference shall also be paid by that date. Any overpayment may be reclaimed from this same date.

IV VALUE-ADDED TAX

Possible tax-base reduction in case of bad debt

In contrary to the view of the Court of Justice of the European Communities in the Hungarian VAT Act, there has not been a legal possibility to properly handle the tax paid on bad debt. The changes taking place in 2020 are significant and have been long awaited.

The VAT amount on not fully recovered sales which arose in or after 2016 may be reclaimed from the tax authority if the relevant conditions are met.

It is important to note that the bad debt itself is also defined by the Hungarian VAT Act, but unfortunately it is not the same definition as in Accounting or Corporate tax law, nor directly compatible with the concept of limitation in the sense of the civil law.

Intra-Community Sales

The change in the relevant EU rules slightly redefines the conditions for exempt sales, introducing significantly stricter rules.

In the future, exemption is subject to the condition that the purchaser has a Community VAT number in another

member State or that the seller includes the transaction in the recapitulative statement.

In case of Community sales of goods, it is important to prove, that the product actually leaves the Member State of dispatch. This can only be proved by at least two documents, possibly from parties that are independent of the seller and the buyer. This certification is primarily the task of the person who has interest in it.

Stricter rules at the same time create a clear situation: if the parties have the appropriate documents, this is a presumption that cannot be challenged by the tax authorities.

Rules for call off stock

The essence of call off stock is that the seller delivers his product to a known buyer in a warehouse in another Member State, but the product remains the property of the seller until the buyer stores it from the warehouse. As a general rule, tax liability would arise at the time of moving one's own product, but due to the special provisions for the customer supply, the movement of goods becomes taxable only when call off.

This administrative simplification has not been applied in the past by all Member States, but from 2020 there will be unified regulations in all EU Member States regarding VAT on customer supplies, while at the same time certain details have been tightened in relation to former Hungarian regulations.

The seller of the product must enter the transaction twice in the recapitulative statement:

1. when shipment is complete, only the customer's tax number and name are required;
2. when the sale (withdrawal by the buyer) takes place, the data required when reporting the Community sales of goods are to be reported.

The product may be in call off stock for up to 12 months, during this time the buyer may change once, provided the relevant conditions are met.

Special tax refund

As a new provision, a taxable person may apply to the tax authorities for a refund of input tax if for reasons not attributable to him, he has not otherwise recovered in breach of the principle of tax neutrality. This may mostly occur in the event of incorrect application of the reverse charge method, and if there is no other way to resolve the situation between taxpayers due to the seller's liquidation.

Online invoicing

The threshold for online invoice data disclosure is eliminated as of 1st July 2020, and the scope of invoices which are subject to reporting requirements will also include the tax-free and reverse charge sales. From 2021 information will be provided to the Tax Authority on all invoices subject to the Hungarian invoicing rules, including invoices issued to non-taxable persons and individuals.

As the reporting obligation expanded, the data content of the domestic recapitulative statement of accepted invoices will also be widened.

Compared to the former 15 days deadline from 1st July 2020, invoices must be issued within 8 days.

V CORPORATE INCOME TAX

Top-up obligation

Top-up obligation was already abolished with respect to tax year 2019, but from 2020 it also cannot be chosen on a voluntary basis in order to take advantage of the opportunity to donate.

Nevertheless, going forward all enterprises subject to quarterly tax advance payment must also pay the fourth quarter tax advance by the 20th of the month following the quarter.

Of course, based on the regular tax (monthly or quarterly) advances and tax payable after the tax year donation is still possible under the same rules.

Group corporate taxation

The rules on group corporate taxation introduced from 2019 have been clarified and have become less strict. It is no longer a condition that the currency of prospective group members' bookkeeping is identical, and the company established during the year can join an existing group from its establishment, if all other conditions are met.

From 2020, the individual tax base of the group members and the calculation that supports it should only be sent to the group representative, and no further reporting to the Tax Authority is required.

If a member of the group does not fulfil one of the conditions for membership, the tax authority will now only suspend membership of that member, and if the other members fulfil the conditions for forming the group, the group may continue to operate.

Development tax benefit

The terms of eligibility for the development tax benefit has also changed favourably:

- For investments started from 2020, it is sufficient to maintain the average number of employees over the 3 years preceding the investment without increasing it,
- For SMEs (Small and Medium-sized Entity) the amount for minimum investment will continue to decrease in the coming years, with the previous cap of HUF 500 million on medium-sized entities, it will be reduced
 - to HUF 400 million in summer 2019,
 - to HUF 300 million in 2021, and
 - to HUF 100 million in 2022.

The same limit in case of small-sized entities will decrease

- to HUF 300 million from summer 2019,
- to HUF 200 million from 2021, and
- to HUF 50 million from 2022.



It is important to note, that the SME classification of a company should continue to be determined in accordance with the relevant EU regulations taking into account the details of its affiliated and associated companies.

Actions against tax avoidance

The intention is to suppress the international practice of groups of companies taking advantage of differences in tax and accounting systems in different countries. Under the new regulations that have just been introduced, if the same facts are subject to different treatment in the countries concerned, with different tax consequences, the related cost, expense and tax base adjustment item cannot be applied to related party transactions. (For example: where one party pays interest under the rules of its own country but is treated as a dividend under the rules of the other party. In this case the interest paid shall not be recognized as an expense.) In order to comply with the regulation, it is appropriate for the parties concerned to declare to each other what the amount in question qualifies for.

The so-called exit tax is also intended to reduce the possibility of tax evasion. In the case of a transfer of the place of business management, an international transfer of a seat or an establishment or a transfer of a business from a domestic establishment to another, the difference between the market value and the carrying amount of the transferred assets, activities will be taxable. The tax liability is payable for 5 years in instalments, which is immediately terminated and the outstanding liability becomes payable when the company in the country of destination is wound up, liquidated or goes bankrupt.

In case of transfer of assets from another EU member state the market value of the assets taken over is considered to be the historical cost.

VI SUPPORT FOR SPORT FACILITIES

The intensity of the subsidy for facility development may increase to 100% for sport federations instead of the current 70%, thus enabling them to make investments without any own resources.

In the case of the investments executed in several stages, the period during which the certificate of subsidy can be issued after the investment is increased from the previous 4 years to 6 years.



Contact

András Szalai, Managing Partner, Managing Director
 andras.szalai@ps-bpo.com

Process Solutions Kft. | 1134 Budapest, Váci út 33.
 +36 1 451 7100 | info-hu@ps-bpo.com

Process Solutions Group

Process Solutions is an ex-Arthur Andersen Business Process Outsourcing (BPO) Group now operating a dynamic and rapidly expanding independent accounting business in the European region, delivering services to some of the largest corporations in the world. Through our own offices and together with our partner network we deliver high-quality finance and accounting services for multinational companies in most countries across Europe.

- Bookkeeping and tax compliance
- Statutory and international reporting
- Payroll
- SSC support
- Interim CFO, chief accountant and loan staff
- Business planning and modelling
- Fast clean-up in accounting and tax

The purpose of our newsletter is to provide general information and to draw the attention to the current changes in law which we believe to be important for the business operation of our clients. It is not a replacement for careful review of the acts and rules and the consultation with your tax advisor.

© Copyright 2020, Process Solutions – All rights reserved.



process
solutions

www.ps-bpo.com