



## SME INFO

### TAX LAW CHANGES AS OF 2020 2<sup>ND</sup> HALF AND 2021 IN HUNGARY



The purpose of SME INFO 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.

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The Act LXXVI of 2020, published on 14 July 2020 and establishing Hungary's central budget plan for the year 2021, contains several changes which will have impact, among others, on the area of taxation. Hereunder we sum up the issues we deem important with the intent of arising attention, but without a claim of

being exhaustive. Even though it could be assumed based on the title of the Act that the changes will become effective as of 2021, certain provisions will be applicable already in 2020, therefore hereunder we specify the date of coming into force for each item.

## I. LOCAL TAXES

### a) Local business tax – top-up obligation

 Coming into force: as of tax year 2020

The local tax advance top-up obligation will be ceased. Irrespectively of whether the company's business year is identical with the calendar year the „top-up“ obligation need not be fulfilled even for the business year on-going on the day of the law coming into force.

### b) Building- and land tax

 Coming into force: 15 July 2020

- Societies and foundations will be exempted from paying building- and land tax in respect of the real estates after which they, as the beneficiaries of valuable rights and interests belong to state property, were earlier obliged to pay such taxes.
- The taxation rights of the municipalities concerning the advertising spaces located on real estates which fall under the Act on the preservation of the settlement view will be abolished.

## II. PERSONAL INCOME TAX

### a) Private individual

 Applicable also to payments carried out after 15 July 2020

When calculating the income it is not required to take into account the income paid by another person on behalf of the uninsured private individual on the basis of an agreement made for the purpose of acquiring entitlement to healthcare services, including if such payment is carried out in any EEA (European Economic Area) state in the frame of the mandatory social insurance system.

### b) Individual entrepreneur

 Applicable also in relation to the tax year of 2020

Under the legal title of development provisions the individual entrepreneur can decrease his tax base with the total (formerly 50%) sum of the remainder of its entrepreneurial income after deducting his entrepreneurial expenses up to sum of HUF 500 million.

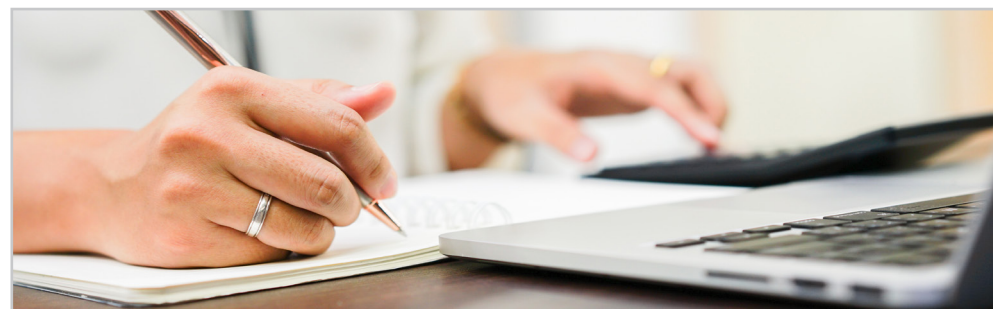
## III. KATA (FIXED-RATE TAX OF LOW TAX-BRACKET ENTERPRISES) AND KIVA (SMALL BUSINESS TAX)

### a) A general change for low tax-bracket entrepreneurs

 Coming into force: 1 January 2021

A private individual can be registered as a low tax-bracket entrepreneur only in relation to not more than one legal relationship. If the private individual has been already listed in the tax authority's register as a low-bracket entrepreneur, all further such registrations will be denied.

If a private individual is qualified as low-bracket entrepreneur in respect of more than one legal relationship, he has to terminate them until 31 December 2020. If this is not done, the tax authority will keep the first registered low-bracket entrepreneurship status and will ex officio cancel all additional such status registrations.



## b) KATA – 40% special tax

40% special tax will have to be declared and paid after the following revenues:

Tax base	To be declared and paid by	To be paid until
Revenue from a domestic payer qualified as the affiliated company of KATA enterprise	The domestic payer	The 12 <sup>th</sup> day of the next month after the revenue payment
Revenue from a foreign payer qualified as the affiliated company of KATA enterprise	KATA enterprise	The 12 <sup>th</sup> day of the next month after the revenue payment
Revenue from a domestic payer exceeding HUF 3 million per year paid to the same KATA enterprise	The domestic payer	The 12 <sup>th</sup> day of the month following the date of the payment that exceeds the limit
Revenue from a foreign payer exceeding HUF 3 million per year paid to the same KATA enterprise	KATA enterprise	The 12 <sup>th</sup> day of the month following the date of receiving the payment that exceeds the limit

The existence of an affiliated business relationship will be determined on the basis of the definition in Act LXXXI of 1996 on Corporate Tax and Dividend Tax.



Joint management creates affiliated relation as well!

### Base of the special tax

When calculating the base of the 40% special tax the following amounts need **not** be included

- any amount after which 40% tax is payable under another legal title,
- amounts received as financing from the Health Insurance Fund,
- amounts received in accordance with tariffs specified by law,
- amounts received from a budgetary institution as source

## Declaration of the special tax

Until 25 February of the year following the current year the KATA entrepreneur shall supply the Tax Authority with the data of its revenues from foreign payers falling under the 40% special tax payment obligation giving the name and address of the payer and the amount received.



Payment of the 40% special tax shall not exempt the KATA enterprise from paying the flat-rate tax.

## IV. MODIFICATIONS CONNECTED TO “ACT CL OF 2017” ON THE RULES OF TAXATION

### a) Electronic Public Road Trade Control System (EKAER)



Coming into force: 1 January 2021

The scope of purchasing, selling and other movements of products falling under reporting obligation will change: products qualified as „not risky“ will be exempted from the reporting obligation, and transportation by motor vehicles exceeding a gross mass of 3.5 tons as a lower limit of the reporting obligation will be revoked, furthermore the rules of default penalties will be modified .

## V. COMPENSATION CLAIMS BASED ON DECISIONS OF THE CONSTITUTIONAL COURT, THE CURIA (SUPREME COURT OF JUSTICE), OR AN EU COURT



Applicable to procedures in process in front of the tax authority and to procedures closed with final decisions

If, on the basis of the decision of any of the above courts, the tax payer's claim for reimbursement is well founded, then the amount of the reimbursement will be determined at the value increased with the actual central bank base interest rate plus 2 percentage point for the period



between the date of paying the tax and the date of the reimbursement decision becoming final. Earlier the tax authority returned only the amount increased with the actual central bank base interest rate.

In procedures closed with a final decision, upon the tax payer's request submitted within the 6 months term of preclusion calculated from 15 July 2020, the tax authority shall determine the 2 percentage point interest difference by the amendment of its decision within its own authority.

In the case of applications, concerning value added tax, submitted until 31 December 2016, the tax authority can be requested, until 15 January 2021, to determine the 2-percentage point difference and reimburse it to the tax payer.

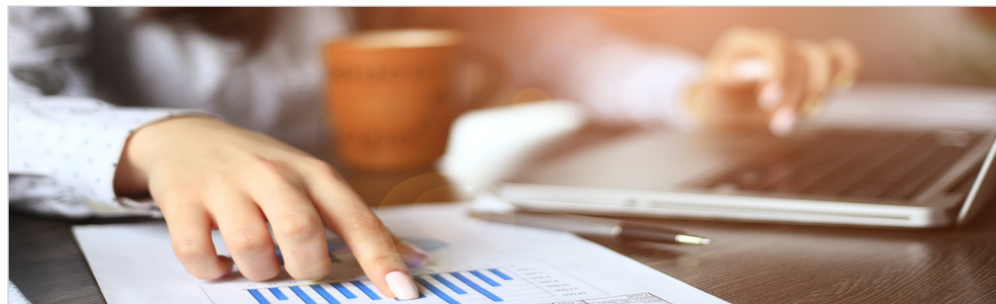
## VI. CHANGES OF THE SOCIAL SECURITY ACT

### a) Minimum contribution base



Coming into force: 15 July 2020

As we detailed in Nr.12 of SME INFO, in Hungary a new Social Security Act came into force on 1 July 2020. One of its new measurement was the introduction of a minimum threshold of the contribution base, which amounts to 30% of the minimum wage. If in any month the employee's income does not reach this minimum limit, then the employer will be obliged to pay the difference between the contributions payable on the basis of the minimum contribution base and the actually deducted contribution.



Under the previous regulation the employer had to book such difference as a receivable from the employee. The present amendment provides that the difference shall be paid by the employer, but it will be considered as if payment had been made by the insured person.



Transitional rule: the Social Security payment obligation after the difference of the minimum threshold of contribution and the actual income forming the contribution base shall not be settled in respect of the months July and August 2020.

### b) Healthcare service contribution

Its current amount is HUF 7 710 on monthly basis (HUF 257 daily). As of 2021, the monthly and daily sums of the healthcare service contribution will be determined by an inflation-following automatism and its actual amount will be published on the web page of the Hungarian Tax Authority (NAV) until 31 October of the preceding year.

### c) Supplementation of procedural rules concerning healthcare service contribution payments

The National Institute of Health Insurance Fund Management (NEAK) will perform the investigation of domestic title in the case of ex officio determination of the healthcare service contribution. Upon notification from NAV, NEAK will register the persons entitled to healthcare services.

NAV will inform all persons concerned of their payment obligation within 8 days after receiving the data from NEAK.

If, for any reason, NAV does not prescribe the payment obligation (e.g. earlier the person concerned with the payment obligation had not been qualified as a domestic individual, or the employer did not report the termination of the insurance relation), then the person obliged to pay the healthcare service contribution has to report its obligation to NAV by submitting a data sheet 20T1011U.



Should the healthcare service contribution arrears of a private individual exceed the sixfold of the monthly amount, his TAJ ("Healthcare ID") number will be invalidated and the person will not be entitled to the free of charge use of the healthcare services. (Under the new Social Security Act the amount of the same arrears was three times the monthly amount, which is now raised to six times).



A transitional rule provides that the amount of arrears arisen from payment obligations of healthcare service contribution under the former legislation need not be calculated when applying the amending law. That is, the arrears of the period preceeding 1 July 2020 need not be taken into account in the case of the 6-month-rule.



Subsequent payment of the debt will not result in a retrospective validity of the TAJ-number.



Procedures started before 1 July 2020 shall be handled in accordance with the previous Social Security Act!

