

The Brief

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NEWSFLASH

Hungary 2010 Interim Tax Law Changes

In June 2010, the Hungarian government announced a 29-point economic action plan, including steps that are meant to implement lower taxes and simplify the tax system.

Part of the tax related steps has been already passed by the Hungarian Parliament. The new bill amending the tax laws was published on 13 August 2010.

The codification of other parts of the action plan is still under way, additional draft bills are expected to be submitted to the Parliament in the near future.

Please note that this Newsflash is aimed at giving a flavour of the major changes. As such, the summary below is by no means exhaustive and complete, and should not be relied upon as legal or tax advice. For individualised tax and legal consulting, please contact our advisors at the contact details displayed on the back page of this newsletter.



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More Preferential Corporate Income Taxation

As of 1 July 2010, the preferential 10% corporate income tax ("CIT") rate will be applicable up to a positive tax base of HUF 500 million, instead of the former HUF 50 million limit. In addition, as opposed to the former rules, the preferential 10% CIT rate may be applied without preconditions.

As the changes are introduced during the tax year, taxpayers should apply both the former and the newly introduced tax rate regimes in 2010. Technically, this means that the 2010 CIT base should be split up in proportion to the calendar days in the first and second half of 2010.

The table below illustrates the calculation of CIT for 2010 and 2011:

	2010		2011
Tax base	The part of the 2010 CIT base attributable to the first half of 2010	The part of the 2010 CIT base attributable to the second half of 2010	2011 tax base
Tax rate	10% up to a tax base of HUF 50 million if certain conditions are met	10% up to a tax base of HUF 250 million (i.e. half of 500 million due to the half year) without further preconditions	10% up to a tax base of HUF 500 million without further preconditions
	19% for tax base above HUF 50 million if certain conditions are met, otherwise 19% for the whole tax base	19% for tax base above HUF 250 million	19% for tax base above HUF 500 million

However, in general, foreign entities holding shares in 'real estate companies' will be still subject to 19% CIT in 2010. In addition, the 19% CIT rate remains in effect with respect to the definition of controlled foreign companies.

Extraordinary Tax on the Financial Sector

Extraordinary tax is levied on most entities in the financial sector that closed their financial statements prior to 1 July 2010.

The extraordinary tax for 2010 should be paid in two equal instalments. The first instalment is due by 30 September 2010, while the second instalment needs to be paid by 10 December 2010.

The tax bases and the tax rates for 2010 in relation to the different financial institutions subject to this tax are summarised below:

Financial institution	2010 Tax base	2010 Tax rate
Credit institutions	2009 adjusted balance sheet total (= balance sheet total – receivables from domestic inter-bank loans – the value of the debt securities and shares issued by domestic credit institutions, financial enterprises and investment companies – receivables from loans, subordinated loan capital and additional subordinated loan capital provided to domestic financial enterprises and investment companies including also receivables from reverse placement transactions, repurchase agreements and delivery repurchase agreements)	0.15% rising to 0.5% for tax base above HUF 50 billion
Insurance companies	2009 corrected premiums (= earned premiums net of reinsurance for non-life insurance + gross premiums for life-insurance – 90% of the ad-hoc premiums and 90% of the premiums from single-premium contracts – certain premiums from deferred-starting pension supplement insurances)	6.2%
Financial enterprises	2009 profit from interest, fees and commissions	6.5%
Investment companies, Stock exchanges, Commodity exchange companies, Venture capital fund managers	2009 corrected net revenue (with a different definition for the different financial institutions)	5.6%
Investment fund managers	net asset value of funds managed and the value of other portfolio assets managed on 31 December 2009	0.028%

The extraordinary tax would be in place for 2011 and 2012 as well. For these years, the tax base and the tax rates will be governed by separate tax bills.



Communal Tax on Entrepreneurs

The communal tax on entrepreneurs will be abolished as of 1 January 2011.

Personal Income Tax

Household work

As of 15 August 2010, household work (cleaning houses, cooking, washing, ironing, baby-sitting, home teaching, home and nursing care, housekeeping and gardening) performed by an individual for another individual do not trigger tax and social security contribution liability. The employer is only obliged to report the employment to the tax authority prior to the start of the activity each month, and to pay a monthly registration fee of HUF 1,000 per employee.

Household work carried out by businesses (including individual entrepreneurs and individuals who perform the activity as employee or shareholder of a company) and household work carried out to the benefit of the employing individual's business are not exempted from tax and social security contributions.

Real property let by individuals

The modifications make it clear that individuals do not have to become individual entrepreneurs and to obtain tax number to let real property if they do not opt for the taxation of the lease for value added tax purposes.

Real Estate Transfer Tax

As of 1 January 2010, transfer tax is levied on the acquisition of a quota in a 'real estate company', if the quota obtained reaches 75% either by the acquirer alone or, for example, with close relatives or its related companies. Based on the recent tax law changes, if a transaction is between related parties, the acquisition is exempt from transfer tax in all cases where the tax authority has not made a binding decision before 1 July 2010.

Inheritance and Gift Tax

Inheritance and donations between linear relatives by blood or adoption are exempted from inheritance and gift tax as of 16 August 2010. The favourable changes also apply to cases where no binding decision was made before 1 July 2010.

Property Tax on Vehicles

The property tax on high value vehicles, including certain water vehicles, aircraft and passenger cars, will be cancelled as of 16 August 2010. The second instalment of the 2010 tax liability should not be paid.

Expected Further Tax Law Changes

In the 29-point economic action plan, the government has also announced plans to implement the following measures:

- 16% flat-rate personal-income tax instead of the current progressive taxation at 17% and 32%, and family taxation (planned to be introduced within the next two years);
- cancellation of tax credits in personal income tax;
- cancellation of several less relevant taxes currently imposed on small and medium-sized businesses.

The related draft tax bills have not been submitted to the Parliament yet.



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