



# PS NEWSLETTER

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## CHANGES IN TAXATION — HUNGARY 2019

The recently accepted changes in taxation have **an impact on a wide range of taxes**. Most of them will be effective as of 1<sup>st</sup> January, 2019.

In this newsletter we provide a brief summary of the **changes which we consider to be the most relevant**.

### I TAX CHANGES

#### Personal income tax

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

As a fringe benefit, **only the amounts paid to the three accounts of Széchenyi Holiday Card shall continue to be available** with the same annual threshold.

There will be significantly **less specific benefits with preferential tax rate and most of the former tax-exempt revenues shall be eliminated** (e.g. mortgage support, housing support for mobility purposes, entry or season ticket to sport events).

#### Corporate income tax

The amount of the **development reserve** which can be deducted from the tax base shall be **increased** from HUF 500 million to **HUF 10 billion** to support large investments.

The new regulation offers the opportunity to account for the tax allowance by subsequent self-revisions, which means the company will be allowed to **apply the tax allowance not only in its original tax return but also in its submitted self-revision**.

#### Value added tax

In line with the EU regulations **transfer and the redemption of vouchers shall be subject to VAT** from 1<sup>st</sup> January 2019.

The place of **supply of telecommunication services provided** at a distance for a non-taxable customer has been modified as follows: if the net amount of the performed services does not exceed EUR 10,000 the place of supply shall be the member state of the taxable supplier instead of the establishment country of the non-taxable customer.



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In case of **voluntary liquidation or termination without legal successor**, if the tax date of periodically settled transactions would be after the day of termination, the tax date shall be equal to the date of the termination. However, this regulation is only applicable for the supplier's termination without legal successor but not for the customer who would be receiving the invoice.

## Small business tax

From 2019 a **wider scope of taxpayers** shall be eligible to choose small business taxation (KIVA).

The threshold to opt for KIVA shall rise to **HUF 1 billion revenue** and **HUF 1 billion balance sheet** total. Furthermore, KIVA taxpayer status shall be terminated in case the company's revenues exceed HUF 3 billion on the first day of the given quarter.

In addition, the **regulation of KIVA has been modified in more sections** for clarification and harmonization of law.

## Local taxes

From 2019 **local municipalities are authorized to offer tax or tax base allowance without limitation** for taxpayers who invest in the municipality's territory. The base of the allowance is the investment amount, which can be carried forward to the following tax years.

Twice a month the tax authority shall notify the local municipalities about changes concerning the taxpayers who have their seat, branch office at the local municipality's territory. This means that **taxpayers are relieved from the obligation of reporting data to the local municipalities**.

## Other taxes

**Special tax of credit institutions is eliminated** as of 1<sup>st</sup> January 2019, however special **tax of financial institutions shall remain**.

**The obligation to pay R&D tax shall be applicable for more taxpayers**. Companies qualifying as medium or larger enterprises on a group level basis shall be the subject to the R&D tax again irrespective of whether they qualify as medium or larger enterprise based on their individual company level

indicators. This regulation sets back the practice which was applied until the end of 2014.

From **2018 legal firms are eligible to opt for fixed rate taxation of small enterprises (KATA)**, in this case **they will no longer be subject to the Act on Accounting**.

## II RULES ON TAXATION

The **rate of default interest shall increase** from 1<sup>st</sup> January 2019: the new daily rate shall be 1/365 part of the amount calculated at the **Central Bank's prime rate plus 5 per cent**. This means that the present amount of the default interest shall increase to more than triple.

**The increased rate** of default interest is **also applicable for the tax authority** in case the it performs its paying obligation in delay.

The calculation method of the default interest shall also change for **risky taxpayers**, they **will be subject to 150 percent of the normal rate**.

At the same time, **the rate of the self-revision fee remains equal to the Central Bank's prime rate**, in case of repeated self-revision the rate of interest shall be 150 percent of the same.

## III ADDITIONAL CHANGES

Companies will be able to modify their decisions related to the **functional currency of their bookkeeping and the financial statements** after 3 years instead of the present 5 years.

There is also a provision confirming the existing regulation. The functional currency of the bookkeeping and the financial statements must be equivalent to the functional currency determined in the company's deed of foundation.

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.

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