

Tax & Legal Alert

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The most important tax legislative changes effective from 2015

The following newsflash provides a summary of the most important amendments to tax legislation for 2015, adopted by Parliament on Tuesday, 18 November 2014. In addition to these legislative amendments, a number of proposals have been submitted to Parliament that may give rise to significant changes for taxable persons from 2015, including in particular companies involved in the tobacco industry. Such proposals concern, among other changes, the introduction of a special health care tax payable by tobacco manufacturers and registered traders, an increase of the excise tax rate applicable to tobacco products, and the modification of the tobacco retail supply chain. These proposals are expected to be adopted before the end of this year. We will inform our Clients on related developments in future newsflashes.

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Taxes and contributions on labour

Personal income tax

Cafeteria benefits – There will be significant changes to non-cash benefits. As a general rule, the current 35.7% tax rate will apply only to HUF 200,000 (instead of the earlier threshold of HUF 500,000) from the amount of fringe benefits granted by employers (e.g. Erzsébet vouchers, local travel passes, etc.), whereas the part exceeding this amount will be subject to an increased tax rate of 51.17%. However, SZÉP Card benefits provided above the threshold of HUF 200,000 will remain subject to the lower tax rate up to a total annual amount of HUF 450,000. In companies providing cafeteria benefits over a net amount of HUF 200,000, this change may result in a shift to the choice of SZÉP Card benefits.

Tax allowance for first-time married couples

– The introduction of a new tax allowance, and the expansion of the existing allowances, will provide further support to families. Couples marrying after 31 December 2014 will be able to decrease their tax bases by a total monthly amount of HUF 31,250, which represents monthly tax savings of HUF 5,000. To take advantage of this tax allowance, it is sufficient if one of the persons meets the criterion of marrying for the first time. The tax base reduction will be available to first-time married couples for a maximum of 24 months following the wedding, until they become entitled to use the tax base allowance for families with children.

Expanding tax allowances for families – Within four years, starting in 2016, the amount of family tax allowance for families raising two dependent children will be doubled. Next year, the consolidated tax base may be decreased by a monthly amount of HUF 62,500, just as this year. From 2016 on, the tax allowance will increase by an annual amount of HUF 15,625, which represents a monthly tax saving of HUF 2,500.

Taking advantage of tax allowances during the year – A change in the rules for tax advance declarations will enable private individuals with long-term personal service contracts to take advantage of the tax allowances decreasing their personal income tax or tax base, or the family contribution allowance already during the year, before they file their tax returns at year-end.

Prohibition of salary substitution – The new regulations state as a basic principle that salaries may not be substituted by granting benefits subject to favourable tax rates. Although this principle could already have been concluded by legal interpretation before the enactment of this amendment, the new act includes a specific provision to confirm that tax-exempt or fringe benefits may not be provided to private individuals as compensations for their activities.

Ensuring accessibility for people with disabilities will also be eligible for support – According to the bill, funds used for ensuring accessibility for people with disabilities, in compliance with the Government

Decree on state housing subsidies, will be regarded as serving housing purposes. Therefore, if certain conditions are met, employers will be allowed to provide tax-exempt housing allowances and will not be obligated to determine income from interest if they grant loans to their employees for this purpose.

Reporting securities provided as benefits

Employee share schemes subject to favourable taxation will have to be reported to the tax authority.

Host companies receiving leased staff will also qualify as employers – The new legislation will enable Hungarian companies leasing staff from foreign companies to act as their employers in regards to the personal income tax payable on their remuneration.

Students working out of student-work placement offices will also be entitled to cafeteria benefits

– Employers will be allowed to grant benefits, including fringe benefits, to students employed through student-work placement offices under the same conditions as to their employees.

Liability insurance for senior executives

Liability insurance premiums paid by companies for their senior executives will become tax exempt. This change will have a retroactive effect and can be applied to any previous year.

Phasing out the preferential treatment for whole life insurance

– As of 1 January 2018, whole life insurance policies will be subject to the same taxation as other insurance policies that are used as savings instruments. Therefore, taxes and contributions on whole life insurance policies taken out by payers for private individuals will be treated as other specific benefits from the payer's perspective (current treatment: tax exempt if certain conditions are met), and as interest income from the recipient's perspective (current treatment: other income in specific cases).

Instalments reimbursed by banks – We would also like to call your attention to a new provision on personal income tax that entered into force on 1 November 2014. This provision stipulates that amounts repaid by banks to private individuals in compliance with the Hungarian Supreme Court's uniformity decision on housing loans may not be considered to modify the private individual's tax liabilities in any tax year. This also means that such repayments may not affect the tax exemption of employer-assisted housing benefits, either.

Social security contributions

Insurance of secondees from third countries – Under the general rules, secondees from third countries working in Hungary for less than two years will remain exempt from the obligation to pay social security contributions next year. According to the proposed amendment, the two-year period is counted from 1 July 2013 (instead of the currently valid starting date of 1 January 2013).

Cancellation of the healthcare service contribution – The monthly amount of healthcare service contribution payable by persons who do not qualify as having insurance in the public system will increase from HUF 6,810 to HUF 6,930. A further change is that persons who had their habitual place of residence in a foreign country and were subject to the health insurance system of that country may request the cancellation of this payment obligation.

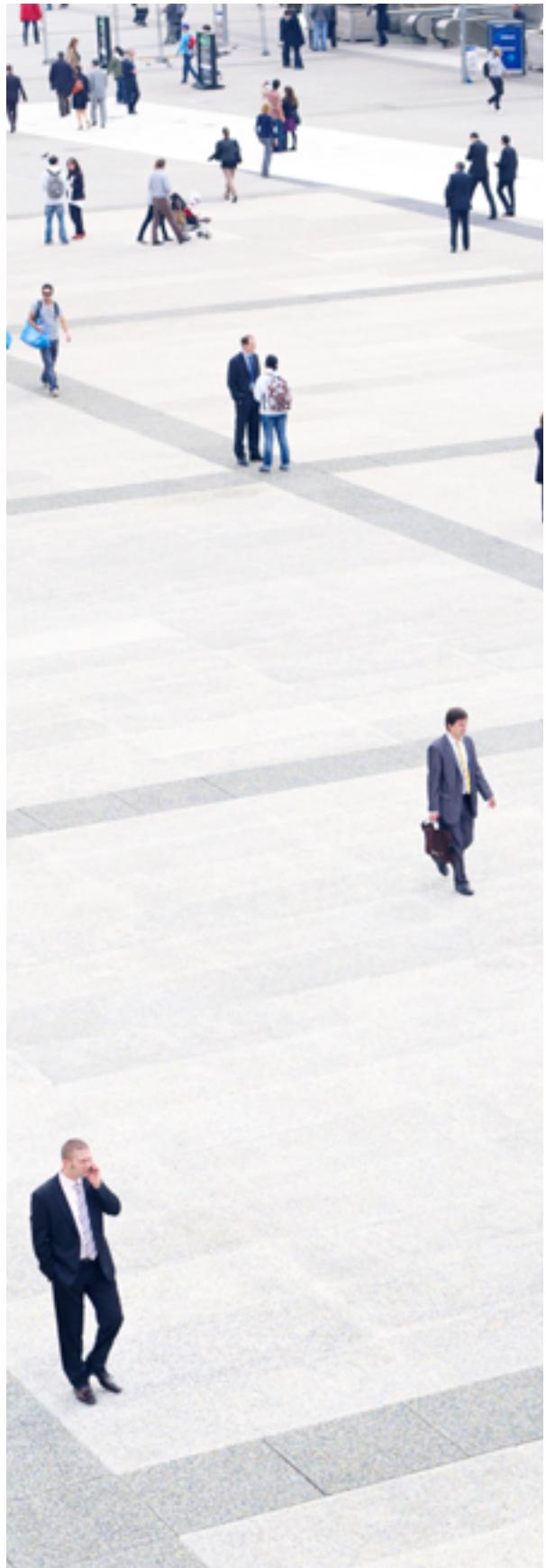
Social tax

Tax allowance available to employers of parents of small children – Employers will be entitled to take advantage of the full amount of social tax allowance for parents employed part-time, i.e. the tax allowance will not have to be apportioned according to the partial working time.

START Card programme to be phased out – The allowances related to the START Card that has been phased out since 2013 will be abolished. Therefore, from 2015, these allowances will no longer reduce the social tax payable by employers. The above allowances will finally be replaced by the tax allowances introduced under the job protection action plan.

Simplified employment

Salaries paid under simplified employment – For employees employed under the simplified employment scheme, amounts exempted from personal income tax will have to be calculated based on the daily amount of the guaranteed minimum wage, rather than the minimum wage, if the employee is entitled to at least 87% of the guaranteed minimum wage. As a result, the tax-exempt part of remuneration paid to employees with at least secondary education will increase by appr. 16%, if they are employed under the simplified employment scheme.



Changes concerning corporate income tax

Definition of related companies – From 2015, related party status will be deemed to apply where a controlling influence on business and financial policy exists between the taxable person and another person in view of their identical management.

Limitation of taxation of foreign real estate funds – The definition of permanent establishment will be broadened to ensure that real estate funds established in an EEA member state and having the same legal status as Hungarian real estate funds (having legal personality in the state of their establishment but not being subject to any tax that may be substituted for corporate tax according to the national law of the country where they are established) should not be subject to corporate income tax in respect of the exploitation or sale of real property or natural resources or the transfer of related intangible property rights.

R&D classification not mandatory – In contrast with the earlier bill, claiming a tax base allowance will not require preliminary classification by the Hungarian Intellectual Property Office.

Supporting institutions of higher education –

Similarly to companies supporting public-benefit organisations, the Hungarian Disaster Relief Fund, and the National Cultural Fund, a new tax relief will be available to companies providing support if they meet the following criteria:

- under a higher education support agreement concluded with the institution's founder or funding body, the supporting entity agrees to support the institution of higher education under pre-agreed terms in the form of a grant provided for a period of at least five years;
- in the tax year in which such support is provided, the taxable person may deduct from its corporate tax base up to 50% of the amount paid under the agreement, with the proviso that the deducted amount may not exceed its pre-tax profits.

The tax relief may already be claimed for tax liability concerning the 2014 tax year in respect of agreements to support institutions of higher education concluded in the 2014 tax year.

Losses carried forward – From 2015, the rules on the use of losses carried forward will become more stringent:

- in respect of losses incurred from 2015, the time limit for using losses will be reduced to five tax years;
- further, according to the amendment, losses carried forward that were incurred up to the last day of the tax year starting in 2014 and have not been used to reduce the tax base may be written off according to the terms in force at the time when they were incurred, with the proviso that losses carried forward may at the latest be used to reduce pre-tax profits in the tax year including 31 December 2025;

- the current restrictions on the use of losses carried forward acquired by a successor company in connection with corporate transformation or acquisition will become more stringent, in respect of the requirement to continue the predecessor company's business activity. Losses carried forward and acquired by the successor company in the course of corporate transformation may be used (written off) in a tax year only in proportion to the ratio of the sales or other revenues gained in the tax year in respect of the continued business activity and the average sales or other revenues gained by the predecessor company in the last three tax years preceding the transformation.

Allocating corporate taxes to organisations

involved in sports and performing arts as well as for film production projects – In the future, taxpayers interested in supporting sports and culture as a means of optimising their corporate tax liability will be able to choose between providing such support under the current corporate tax allowance regime or allocating some of their corporate taxes under the new rules coming into force from 1 January 2015. The two regimes will not be applicable in parallel within the same tax year; taxpayers will only be able to choose one of the two forms of support.

Under the new corporate tax rules, taxpayers may allocate up to 50% of their monthly or quarterly corporate tax advances. Declarations on allocation may be modified up to five times within a tax year. Taxpayers omitting to make a declaration on allocating corporate tax advances may allocate a portion of their payable corporate taxes in their corporate tax supplement ("top-up") return or annual corporate tax return. Total allocations will be capped at 80% of payable corporate taxes. In the case of sports support, 12.5% of the amount allocated will qualify as supplementary sports development support, which will entitle the taxable person to apply a sponsorship arrangement, while 1% will be due to the supervisory body as an official fee.

Taxpayers will be eligible for tax credit by making allocations. Tax credit on allocations from tax advances and tax advance top-up payments may equal the allocated amount – in the case of sports support, reduced by the amount of supplementary support and the 1% official fee –, capped at 7.5% of 80% of payable corporate tax. For allocations made in the annual corporate tax return, the tax credit may also equal the allocated amount – in the case of sports support, reduced by the amount of supplementary support and the 1% official fee –, but will be capped at 2.5% of 80% of payable corporate tax.



The amendment opens favourable tax treatment for providing sports or cultural support to companies that prepare their annual financial statements, or report to their foreign-based parent companies, according to International Financial Reporting Standards ("IFRS").

Income (profit) minimum – From 2015, when determining the income (profit) minimum, total revenues may not be decreased by the cost of goods sold or the value of intermediated services.

Depreciation of goodwill – From 2015, taxable persons may – subject to pursuing their business in line with their intended purpose – recognise corporate income tax depreciation at an annual rate of 10%.

Development tax incentive – The terms of the General Block Exemption Regulation may also be applied to investment projects for processing and distributing agricultural products, i.e. claiming the tax relief is subject to a government decree – based on authorisation by the

European Commission – if the total amount of state aid required for the investment project exceeds the amount that can be provided at the same municipality for an investment project with eligible expenses exceeding the HUF equivalent of EUR 100 million at present value.

Transfer pricing – A new paragraph has been added to transfer pricing regulations, containing guidance on the application of certain transfer pricing methods. Under the new regulation, in certain cases taxable persons will be required to apply the interquartile range when determining and presenting the arm's-length nature of their prices. On the basis of the wording of the law, cases in which applying the interquartile range is justified will be set out in the ministerial decree on record-keeping requirements. The relevant decree is expected to be updated before the end of this year.

Changes concerning other direct taxes

Local taxes

Municipal tax – Local governments will be able to levy taxes within their area of jurisdiction by issuing a decree. Municipal tax may only be levied on taxable assets that are not subject to public dues regulated by law. Taxable persons subject to municipal tax will not include organisations, entrepreneurs, states and local governments. Public dues from municipal taxes will represent revenues of the local government concerned.

Value of intermediated services and cost of goods sold deductible from local business tax according to revenue brackets – From 2015, for the purposes of applying the rules of aggregation, sales revenues, the cost of goods sold and the value of intermediated services will have to be taken into account in proportion to the length of the period of related company status. As a result of the amendment, the tax base will not be disproportionately high for businesses which during the tax year become related companies of entities in respect of which revenue bracketing must be applied.

'Robin Hood' tax

Top-up obligation – From 2015, the tax advance top-up obligation of taxable persons will be raised from 90% to 100% of the expected payable tax. The higher top-up obligation can already be chosen in respect of the 2014 tax year.

Provisions for expected obligations and future expenses – From 2015, similarly to corporate income

tax, amounts recognised as expenses in respect of provisions and additions to provisions must be added to, while amounts recognised as revenues in the tax year when using provisions are deductible from the taxable base for the 'Robin Hood' tax purposes. To apply a deduction, the taxable person concerned must have previously increased its tax base, unless the provisions concerned had been made before the taxable person became subject to the 'Robin Hood' tax. In the latter case, the deduction can already be applied in respect of the tax year commencing in 2014.

Reversal of impairment recognised on ownership interest – Similarly to corporate income tax, the amount of impairment recognised on ownership interest and reversed in the tax year is deductible from the tax base, provided that the same has been previously added to the tax base of the taxable person concerned. This option can already be applied in respect of establishing the tax liability for the 2014 tax year.

Items received free of charge – Tax base adjusting items will include assets transferred/received free of charge and services provided/received free of charge. Exceptions will include items provided to or received from local governments pursuant to a statutory obligation.

Termination with legal succession – Similar to corporate income tax, for the legal predecessor in the last tax year (in the case of a de-merger, for the legal successor in the first tax year), the tax base must be increased by the amount of positive valuation difference recognised in the final closing balance sheet, as increased by appreciation of provisions made for contingencies and future expenses, and decreased by depreciation of provisions previously recognised as items increasing pre-tax profits.



Telecommunications tax

No 'internet tax' – As the bill on 'internet tax' will not be introduced, there will be no changes in respect of the telecommunications tax liability.

Advertising tax

Definition of publishing advertisements – Under the new definition, it will be irrelevant for the purpose of publishing advertisements that under the contract between the parties (advertiser and publisher), the place, time and manner of publishing advertisements is predetermined on the publisher's website or programming schedule.

New tax authority register – In the future, the tax authority will disclose on its website a list of advertisement publishers that have duly settled their tax liability as well as those that are not liable to pay tax. Taxable persons may be entered in the register by filing a request to the tax authority, provided that it can be established that the taxable person has duly settled its tax liability or has made a declaration on having no advertising tax liability in the tax year.

No requirement to make a declaration – Taxable persons which publish advertisements and have been entered in the register of the tax authority have no obligation to declare whether or not they have an advertising tax liability.

Tax liability of advertisers – No tax liability arises for the advertiser if publishing of the advertisement is ordered from a person/entity included in the register disclosed on the website of the tax authority. Also, no tax liability arises if all of the following conditions are met:

- the advertiser can verifiably demonstrate (e.g. by a return receipt) that it has requested the publisher to make a declaration, and
- it has not received the declaration within 10 working days of receipt of the invoice or other accounting document, and
- this fact, together with the details of the publisher and the consideration for the publishing is reported to the tax authority.

Scope of advertising tax adjusted – In respect of sports, the publishing of advertisements within the framework of amateur sports activities as well as connected to professional sports organisations, talent research and development will no longer give rise to an advertising tax liability.

Tax rate for top bracket raised – From 2015, the rate applicable to the amount over HUF 20 billion of the tax base will increase from 40% to 50%.

Establishing the tax base of related companies

– Under the current rules, related companies must take into account the tax base calculated for the whole tax year, regardless of the length of the period for which they qualified as related companies in the tax year concerned. According to the amendment, from 1 December 2014, only the tax base amount calculated – proportionately adjusted by the number of applicable days – for the period of related company status will have to be taken into account.

Tax liability of taxable persons using a non-calendar financial year – If a taxable person is using a non-calendar financial year, for financial years commencing in 2014, the period between 1 January 2015 and the last day of the financial year must be regarded as a transitional tax year. The amendment prescribes the amount of taxes and tax advances as well as the date of settling tax advances for this period. Tax advances pertaining to the transitional year must be declared by 15 January 2015; 50% of the tax advances must be paid by that date and the other 50% by the last day of the transitional tax year.

Special tax

Special tax for traders and investment funds – A subsection entitled 'special tax for traders and investment funds' will be added to Act LIX of 2006 on the Special Tax and Banker's Contribution Intended to Improve the Balance of Public Finances.

Special tax liability will arise in respect of

- foreign-issued collective investment securities traded in Hungary and kept in securities accounts on behalf of clients by traders having their registered office or branch office in Hungary and meeting the definition of 'trader' within the meaning of Act XVI of 2014 on investment fund managers and collective investment schemes and on the amendment of certain financial laws, as well as
- investment units issued by investment funds registered in Hungary and managed by a fund manager registered or having a branch office in Hungary.

The tax will be payable by the trader or the investment fund, as applicable. The tax base will be calculated based on the quarterly average of the daily net assets value of the collective investment securities or investment units concerned. The tax rate will be 0.05% of the tax base.

The tax liability will have to be settled by self-assessment for traders and by tax collection for investment funds. Both will be obliged to file taxes on a quarterly basis, by the 20th day of the month following the quarter concerned.

Financial transaction tax

Tax on card payments – In the case of (card) payment transactions initiated by the payer through the payee, the previous tax based on the transactional amount will be replaced by a flat-rate tax of HUF 800 per year, where the tax base will be the aggregate of payment transactions executed with the same cash-substitute payment instrument in the previous calendar year. If the tax base includes transactions executed with the use of a contactless payment feature, the tax rate will be HUF 500.

Payment service providers will be required to declare and settle the tax liability concerning card payment transactions once a year, by the 20th day of the first month of the calendar year, for the first time by 20 January 2015.

Duties

Bank transfer instead of stamp duty – Save for a few exceptions, it will be possible to settle administrative procedural fees by bank transfer.

Company owning real estate in Hungary – The definition of a company owning real estate in Hungary will become more stringent. For classification purposes, of assets recognised in the balance sheet, in addition to liquid assets and receivables, prepaid expenses and accrued income will also have to be disregarded for the purposes of determining the 75% ratio. Due to this change, the range of taxable persons meeting the definition of a company owning real estate in Hungary may increase, and such taxable persons may be liable to pay real estate transfer tax upon acquiring their holdings.

Suspension of procedure for levying real estate transfer tax – If purchasing residential property, private persons may request in a written declaration that their liability to pay property transfer tax should arise on the date on which they sell another residential property, within one year of such purchase. If, despite such a declaration, the sale of residential property does not occur within one year, the tax authority will levy the real estate transfer tax together with a surcharge calculated at double the prime rate.

Changes related to indirect taxes

Changes to the VAT Act effective from 1 January 2015

Advance payments – The adopted amending act will clarify the definition of advance payment, as specified in the VAT Act, by stipulating that VAT liability arises even if the taxpayer gains a pecuniary advantage by means other than cash or cash equivalents. (In this case, the chargeable event will occur on the date on which the advance payment is received. This amendment may be of relevance e.g. for exchange transactions.)

Tax exemption – Portfolio management of assets covering technical provisions will be tax-exempt, whereas portfolio management of financial assets, as specified in points d) and f) of the same section of the VAT Act, will be subject to VAT.

Cancellation of tax numbers – Taxpayers will not be entitled to exercise their right to deduct VAT starting from the day on which the decision to cancel their tax number becomes final and non-appealable, if the tax authority cancels the tax number without suspension, in accordance with the VAT Act, or terminates the suspension of the tax number by cancelling it.

Domestic reverse charge mechanism – Leasing staff or making available personnel, and the use of student-work placement offices for construction work or construction of real estate under a construction contract will qualify as transactions subject to the domestic reverse charge mechanism, even if these activities are not subject to a construction permit issued by an authority. According to the amending act, more steel products will be subject to the reverse charge mechanism.

5% VAT rate – As a result of the amendment, more products will be subject to the 5% VAT rate.

(The amendment will affect the sale of live and processed large animals e.g. sheep, goats, cattle).

Domestic recapitulative statement – Entities will be required to file a domestic recapitulative statement if a threshold of HUF 1 million is reached, instead of the HUF 2 million applicable earlier. Taxpayers liable to file the statement may opt to report their transactions even below this threshold to the tax authority. The invoices issued on transactions reaching the above threshold will have to also include the customer's tax number.

Tax warehousing – Regarding tax warehousing activities and the obligations of tax warehouse operators, foreign taxpayers will not be required to request a Hungarian tax number, if their activities are limited to supplying goods from the domestic tax warehouse to the territory of the Community. In this case, operators of tax warehouses may also be authorised to file tax returns on tax-exempt intra-community supply of goods.

Electronically issued receipts – Telecommunications service providers supplying data link services for reporting will be obliged to inform the tax authority about any interruption or termination of their services supplied to cash register operators.

Sale of residential property – Taxpayers who had declared their choice to make taxable all their supplies that meet the criteria in Section 86 (1) j) and k) of the VAT Act, will have the opportunity to modify this choice with regard to residential property until 28 February 2015, based on Section 88 (4) of the VAT Act. Declarations about the tax exemption for the sale of residential property may be filed from 1 January 2015.



Changes to the VAT Act effective from 1 July 2015 and 1 January 2016

Date of supply for transactions subject to periodic settlement

The amendment will take effect in two phases:

- in the case of accounting, audit and tax consulting services, the new rules must be applied first to periods starting after 30 June 2015, for which payment is also due after 30 June 2015;
- for other transactions subject to periodic settlement, the new rules must be first applied to periods starting after 31 December 2015, for which payment is also due after 31 December 2015.

According to the new rules, the date of supply for transactions subject to periodic settlement will be, as a general rule, the last day of the period to which the settlement or payment is related. Exceptional rules will apply to the following two cases:

- if the due date for the consideration payable for the settlement period, and the date on which the receipt or invoice is issued precedes the last day of the settlement period, the date of supply will be the date on which the receipt or invoice is issued;
- if the due date for the consideration payable follows the last day of the settlement period, the date of supply will be the due date for the consideration payable for the settlement period, no later than the 30th day following the last day of the settlement period.

Environmental protection product fee

Change in the range of products subject to a product fee

The following product flows will become subject to a product fee:

- other chemical products (soaps, organic surface-active agents, laundry detergents (except products in containers of a gross capacity exceeding 50 kg) and cosmetic or toilet preparations);
- paper stationery (writing, printing or photocopying paper, notepads, letter pads, journals, binders, dossiers, etc.);
- other plastic products (plastic artificial flowers, foliage and fruit and parts thereof; articles made of artificial flowers, foliage or fruit).

The range of product flows currently subject to a product fee will also change; for example, among packaging materials, a product fee will be payable for plastic edge profiles and iron and steel strapping bands, as well as for electric generators, transformers, electronic integrated circuits and many electronic parts.

Change in fee rates – Fee rates will also change substantially: the amendment will result in a fee reduction for certain product flows (e.g. for packaging materials made of paper, metal or wood, the rate will be reduced from HUF 20/kg to HUF 19/kg), while for other product flows the fee rate will be increased (e.g. for plastic packaging materials from HUF 42/kg to HUF 57/kg, and for small and large electrical and electronic household and equipment from HUF 50/kg to HUF 57/kg).

Other major changes

- The option to assume the product fee payment obligation will include contract packaging and leasing under a lease arrangement.
- The definition of commercial packaging will only

include metal beverage packaging (beverage packaging made of other materials will be subject to the general fee rate).

- Regarding the option to issue a declaration as per Section 3(6) of the EPFA, from 1 January 2015, in addition to domestic customers of the entity obliged to pay the product fee, the entity's foreign customers may also issue a declaration.

Excise duty

Change in tax rates – The tax rate on fuel oils and liquefied and compressed hydrocarbon gases will increase. The differential tax rate for alcohol products will be eliminated and a uniform tax rate of HUF 333,385 per hectolitre of pure alcohol will be introduced (with special rules continuing to apply to contract distilling and private distilling).

Reclaiming excise duty paid on commercial diesel oil

The rate of excise tax reclaimable on the use of commercial diesel oil will be reduced from HUF 17/l to HUF 11/l.

Excise guarantee – The amount of excise guarantee for commercial activities subject to excise authorisation will, as a general rule, be raised for alcohol products, beer, wine, champagne, and intermediate alcoholic products from HUF 22 million to HUF 150 million, and for mineral oil products from HUF 120 million to HUF 600 million.

A “preferential” excise guarantee of HUF 6 million will be introduced for economic operators which hold an excise authorisation and distribute only lubricating oils, certain fuel additives and diluents.

Food chain supervision fee

From 1 January 2015, the rate of the supervision fee will primarily change for stores selling daily consumer goods within the meaning of the Trade Act.

Daily consumer goods – Foodstuffs, perfumeries, drugstore products, household cleaning products, chemical products and hygienic paper products fulfilling the needs of the general population that consumers generally consume, use or replace within one year.

Base for the supervision fee – Net sales revenues gained in the previous year, calculated net of excise duty and public health product tax.

Rate of the supervision fee – The first HUF 500 million will not be subject to tax, the rate will be 0.1% for the part of the tax base above that amount up to HUF 50 billion, 1% for the part between HUF 50 and 100 billion, and will increase by 1 percentage point for each HUF 50 billion above that amount. The highest rate of 6% will be applicable to the part of the tax base above HUF 300 billion.

Energy tax

Tax rate to increase – The tax rate for electric power will be raised from HUF 295 to HUF 310.5 per megawatt hour, for natural gas from HUF 88.50 to HUF 93.5 per gigajoule, and for coal from HUF 2390 to 2516 per thousand tonnes.

Reclaiming energy tax – Users using energy in mineralogical processes (manufacture of other non-metallic mineral products) will be entitled to reclaim energy tax.

Public health product fee

Range of products affected – Alcoholic beverages (except for fruit spirits and certain beverages made with the use of herbs) will be subject to tax at a rate of HUF 20-900/litre (depending on alcohol content).

Taxable products will no longer include sugar-sweetened products falling under tariff headings 1704, 1905 or 2105 and having a honey content of least 20 grams/100 grams and a sugar content not exceeding 40 grams/100 grams.

Customs Act

Post-clearance audit – The types of post-clearance audits have been re-structured.

Customs penalty – As a general rule, the rate of the customs penalty will increase from the current 50% to 100% of the customs duty shortfall, and its minimum amount will be raised from HUF 3000 to HUF 4,000. If the obligation to present goods to customs or submit a customs declaration is breached in respect of excise goods, the rate of the customs penalty will equal 200% of the customs duty shortfall, and may be no less than HUF 40,000. In certain cases, it will be possible to levy a customs penalty in an accelerated procedure. In such cases, the amount of the customs penalty will be 75% of the customs duty shortfall, and may be no less than HUF 4000, or, in the case of violations involving excise goods, than HUF 25,000.

Changes related to tax proceedings

Different classification of transactions – The tax authority will not be allowed to assess the same transaction differently at different taxpayers. Accordingly, the tax authority will be obliged to take into account the statements it made regarding one of the taxpayers involved in a specific transaction when conducting tax proceedings at the other taxpayer involved in the same transaction.

Different classification of international transactions – It will be a basic principle that in the case of legal relationships resulting from international agreements, and the income obtained from such relationships, the different interpretation of the facts of the case and the international agreement by different states may not lead to the avoidance of taxation in both states. Based on the adopted amending act, Hungary will be entitled to tax these transactions. If the tax base cannot be determined, the tax authority will make an estimation by taking into consideration all circumstances of the transaction.

Monthly payer's declarations – Monthly payer's declarations prepared by payers on their payments to private individuals will be required to include more data.

Data supplied on income from pension – To ensure harmonisation with EU law, pension administration bodies will be required to supply data to the tax authority on the pension paid from Hungary to persons tax resident in the EU.

Data supply on e-commerce – The tax authority will be entitled to request data from telecommunications companies on turnover from purchases via internet.

Tax authority certificates provided on foreign forms – In addition to the tax residency certificate, the tax authority will be entitled to issue other certificates (tax, joint tax, income certificates) on forms of foreign tax authorities, provided that the form is in English, or the applicant attaches its Hungarian translation.

Avoidance of tax legislation – If the tax authority perceives a relationship, fact or circumstance during a tax audit that could refer to the avoidance of tax legislation concerning several tax payers, the tax authority can notify all the parties involved.

Advance tax rulings – Advance tax rulings will be binding on the tax authority until the last day of the fifth tax year following the year in which the advance ruling was issued and may be extended once, for an additional two-year period. Such binding rulings will be applicable as long as there are no changes in legislation, in the facts of the case, or in international legal obligations.

For extended advance tax rulings – which are binding in the case of legislative changes but not when changes in the facts occur - taxpayers may request that the start of the three-year period for which the ruling is binding be delayed until the tax year following the year in which the request is filed.

Taxpayers will be allowed to file an advance ruling request to the minister in charge of taxation to confirm the adequacy of the calculation method for the allocation of input VAT charged. However, such requests may not be filed together with the requests concerning specific transactions.

The fee of preliminary consultation connected to advance rulings will increase from HUF 100,000 to HUF 500,000.

Monthly VAT return – Newly established companies will be obliged to file monthly VAT returns, instead of the quarterly returns they were required to file earlier, in the year of establishment and the tax year following their establishment.

Quarterly VAT returns – Taxpayers who had a revenue over HUF 50 million, excluding VAT, from supplying goods or services in the second year preceding the current year will be required to submit quarterly VAT returns instead of annual ones.

Default penalty – Pursuant to the adopted amending act, taxpayers repeatedly hindering the closing of their shops, the authority proceedings, or the enforcement proceedings will be subject to an increased default penalty of up to HUF 1 million.

Right of representation – According to the adopted amending act, the right of representation will be extended to auditors.

New reporting obligation for goods transported on roads (EKAER)

The Electronic Road Freight Control System (EKAER) will be launched. Based on the regulation, only taxpayers with a valid EKAER number issued for specific road shipments will be entitled to perform the following activities with vehicles subject to toll payment:

- acquiring goods or importing goods for other purposes from other EU member states to Hungary,
- supplying goods or exporting goods for other purposes from the territory of Hungary to other EU member states, or
- performing the first taxable domestic supply of goods to parties other than end users in Hungary

To request an EKAER number valid for 15 days, taxpayers will be required to preliminarily report freight details to the tax authority.

Risky food or risky goods (to be specified later) will be subject to stricter rules, according to which weight and value, among other parameters, will influence the depth of reporting obligations. A risk deposit must also be provided for forwarding risky goods on roads.

Unreported goods will be classified as having no certificate of origin. For these goods, the tax authority will be entitled to levy a default penalty of up to 40% of the value of goods, and to seize the goods.

Changes in accounting regulation

Explanatory notes and definitions – The definition of errors identified in audit will be extended to include subsequent modifications to economic transactions carried out in closed business years. Financial leasing, which has been defined until now as a transaction based on a contract concluded in compliance with the provisions of the Civil Code, will be defined according to the Act on Credit Institutions and Financial Enterprises.

General rules for financial statements – Entities preparing their financial statements in a foreign currency will be obliged to use the Hungarian National Bank's official exchange rates when translating the thresholds set in the Accounting Act in Hungarian Forints.

Interim balance sheet – Entities will be allowed to use the latest financial statements or interim balance sheet for six months following the balance sheet date to support the amount of their equity.

Composition of the balance sheet, content of the balance sheet items

- If additional capital is contributed/repaid in assets other than cash, the assets transferred will have to be accounted according to the rules on sales transactions, and retained earnings/tied-up reserves will have to be reduced against the resulting receivables.

- Pursuant to the rules of the new Civil Code, late-payment interest will be payable by law from the first day of default. Accordingly, the accounting regulations will require that late-payment interest must be accounted as liabilities, rather than accruals.

(Acquisition and production) cost of assets

- The cost of assets received as additional capital contribution, or repayment thereof, will be the value of the assets determined in the general meeting, founders' or members' meeting decision on additional capital contribution or repayment.
- Through the repeal of the Companies Act, "equity capital" held in limited partnerships ("betéti társaság") or general partnerships ("közkereseti társaság") has been renamed. Based on the adopted amendment, the Accounting Act labels business shares held in limited partnerships or general partnerships as other investments in companies.

Fair valuation – Prepayments with the characteristics of receivables, and accruals with the characteristics of liabilities, must be recognised in the balance sheet at a HUF value translated at the foreign exchange rate valid on the balance sheet date of the business year.

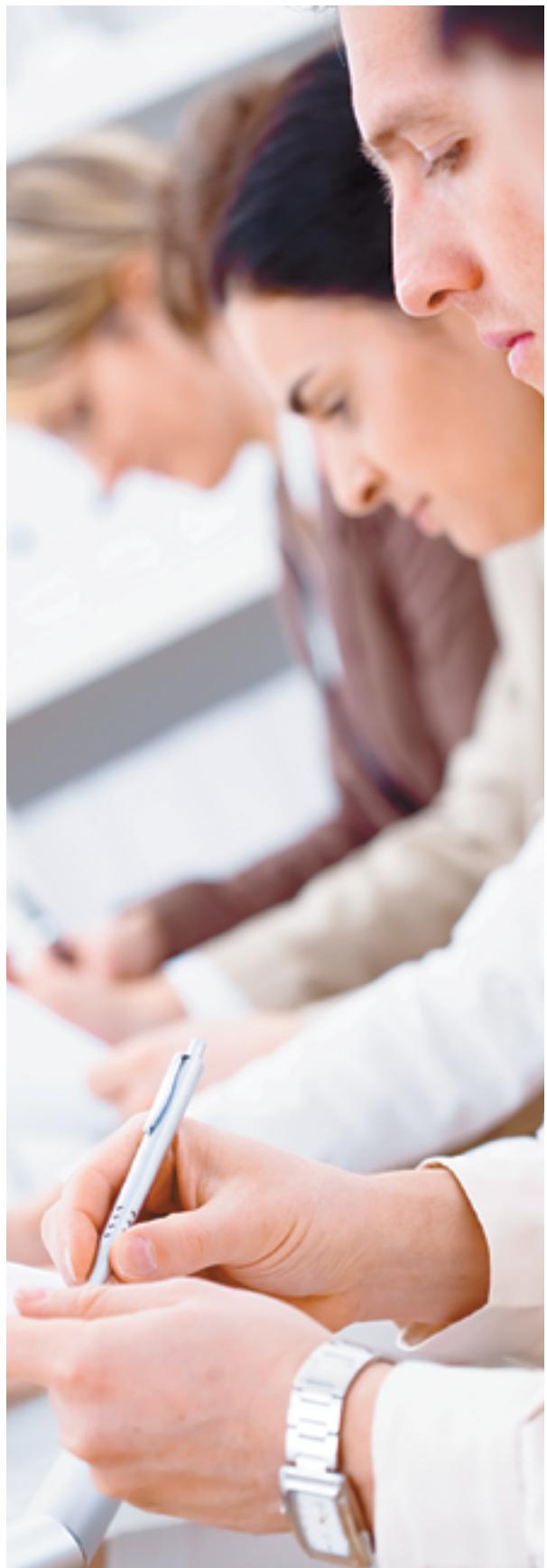


Content of items in the profit and loss statement

- Currently, the consideration paid for transport, loading and warehousing for the route between the Hungarian border and the foreign destination reduces the revenues from export sales. This provision has been repealed by the adopted amending act, therefore the consideration paid for transport, loading and warehousing for the foreign and domestic routes will not have to be treated separately.
- Consideration received for the transfer of a business line in excess of the market value of the assets transferred, net of the liabilities transferred, will have to be recognised as net sales revenues.
- Discounts provided in indirect money-back campaigns in accordance with the VAT Act will have to be recognised, net of deductible VAT, as other expenses.
- In the Civil Code, the definition of “transformation of companies” has been modified to exclude “mergers” and “demergers”. This amendment has also been adopted in the Accounting Act. As a result of several adopted amendments, “transformation of companies” will be replaced by “transformation, merger and demerger of companies”.

Audit objectives, statutory audit – If the legislation provides for or prescribes withdrawal of the auditor's report, entities will be required to ensure that repeated audit is carried out within 90 days following the withdrawal. The new auditor's report will be subject to the provisions on disclosure and filing.

Effective date of the amendments – As a general rule, the adopted amendments will be applicable to business years starting in 2015. Early application is allowed for business years starting in 2014.



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