

## Tax Newsletter



### Parliament approved new tax package on 11 May

3/2009

On 11 May 2009, Hungary's Parliament passed bill no. T/9179, originally submitted in March and subsequently modified several times. The bill on the amendment of certain tax laws and other related legislation contains provisions on changes entering into effect already during this year. This newsletter provides a summary of the main points of the approved tax package.

#### The new tax package

##### Value-added tax

- The standard rate of VAT will be increased **from 20% to 25%** (effective date: 1 July 2009).
- A **preferential, 18% rate** will be introduced for the following: milk, dairy products, bread and certain other bakery goods, as well as district heating service. (In difference from the other goods, the 18% rate for district heating will be introduced not from 1 July, but after the approval by the European Commission, and in any case not before 1 August 2009.)
- The new VAT rates have to be first applied when the date of performance/tax determination falls on or after the date of entry into effect, except in cases of payment in instalments/periodic settling of accounts, where the applicable rate is also influenced by the period to which the given instalment/settling of accounts applies (i.e. entirely preceding, overlapping with or following the effective date).

##### Personal Income Tax

- **The lower bracket of personal income tax is increased from 1.7 million to 1.9 million, with retroactive effect to 1 January 2009.** (The amendment contains detailed rules for the determination of the tax withholdings related to the increase of the tax brackets.)
- From 1 September 2009, 50-50% of the family allowance will be considered as other income and, at the same time, as a tax-exempt benefit for all entitled natural persons as well as their spouses/common law partners.

##### Corporate and dividend tax

- At the option of the taxpayer, the amount of the unplanned depreciation calculated for but not posted in a given tax year may be posted over a period of four years, in equal parts.
- There is an opportunity for the taxpayer to apply modifications to the tax base related to exchange rate difference that is not realized and not covered by a hedging transaction, exclusively in case of investments representing a



participation kept in foreign currency, provided that this does not result in a lower tax base than in case no such modification was applied.

- The modifying provisions may also be applied for the determination of the tax base in tax years starting in 2008.

### Simplified entrepreneurial tax

- In terms of eligibility for the simplified entrepreneurial tax, the maximum amount of revenue is raised from 25 million to 26 million HUF in 2009.

### Act on the Rules of Taxation

- Pursuant to the decision of the European Court of Justice in case C-74/08 PARAT, the Act on the Rules of Taxation is supplemented with a new provision regarding the “procedure of compensating” taxpayers. Taxpayers with the right to deduct the VAT after subsidies from public funds can submit their claims for refunds, in the form of a self-revision procedure initiated within 180 days of the promulgation of ECJ decision. The Tax Authority is required to pay interest on the refunded tax calculated at the prime rate of interest.

### Social security, employer’s contribution, mandatory health insurance

- The extent of the contribution to be paid by employers will be decreased. The decrease will be applicable up to the amount of the income equalling twice the minimum wage. **Employer’s contributions will be reduced from 32% (29% social security contribution and 3% employer’s contribution) to 27% (26% social security contribution and 1% employer’s contribution).** (Effective date: 1 July 2009, with the earlier rules still applicable to income earned before 10 July 2009).
- The monthly fee payable by natural persons of full legal age who are not insured or otherwise eligible to healthcare services will be reduced to 50% of the minimum wage.
- **A uniform decrease of 10 percent point in sickness benefit.** This means 60% instead of the earlier 70% in case of being insured for at least two years, and 50% instead of 60% in case of an insurance period of less than two years. An upper limit was also introduced: the amount of sickness benefit per day cannot be higher than 1/30<sup>th</sup> of 400% of the minimum wage, with this base figure reduced to 150% after the end of the period of being insured. (Effective date: 1 August 2009.)

### Vocational training contribution

- The possible deduction from the vocational training contribution will be reduced (from 70 to 60%), as will be also the development contribution that can be made to institutes of higher education (from 35 to 30%).

Should you have any question concerning the topics discussed in this Newsletter, we are pleased to be at your service.

Sándor Smicsek  
Tax partner  
Mazars Kft.  
1074 Budapest, Rákóczi út 70-72.  
+36-1-429-30-10  
s.szmicsek@mazars.hu

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