

# Tax Agenda Hungary

December 2022



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No.	Fact	Action
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**United States terminated the double tax-treaty with Hungary**

1 The United States notified Hungary of its termination of the Convention between the Government of the United States of America and the Government of the Hungarian People's Republic for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, in force since 1979. The Convention will cease to have effect on 1 January 2024.

Review whether the termination of the Convention will have any impact on the transactions of the company and assess its potential withholding tax implications.



**Transfer pricing adjustments to be made to the median**

2 The use of the interquartile range will always be mandatory for comparable searches based on a public database. If the price falls outside the arm's length range, it will be obligatory to adjust to the median, supported by a benchmarking study. The new rule on the adjustments applies for the first time to tax years started in 2022.

Prepare the necessary benchmark studies in time and review whether the rate applied is in the arm's length range to avoid the correction to the median.



**Additional transfer pricing reporting obligation**

3 Companies subject to transfer pricing documentation requirements will have to provide transaction-level details on their intercompany dealings in their annual CIT returns. Applies for the first time to CIT returns submitted after 31 December 2022. The exact content of the reporting obligation will be determined by an upcoming Ministry of Finance Decree.

Assess the process of the new transfer pricing documentation requirements and prepare the additional reporting in the CIT return.



Use text boxes above the timeline to plan your actions for coming months

● Compliance    ● Risk management    ● Cash-flow / ETR impact

No.	Fact	Action	
4	<p><b>Penalty increases for non-compliance with the transfer pricing documentation requirements</b></p> <p>The penalty changed from HUF 2 million (approx. EUR 5,000) to HUF 5 million (approx. EUR 12,500) per intercompany transaction. In the event of repeated infringements, the maximum default penalty will increase from HUF 4 million (approx. EUR 10,000) to HUF 10 million (approx. EUR 20,000).</p>	Review whether the company complies with the transfer pricing documentation requirements to manage potential penalties for non-compliance.	
5	<p><b>Changes in the Itemized Tax for Small Businesses (KATA) regulations from 1 September 2022</b></p> <p>KATA subject taxpayers can only issue invoices to individuals (taxi drivers excluded from this limitation). Annual net sales revenue threshold of HUF 12 million (EUR 30,000) has been raised to HUF 18 million (EUR 45,000). The tax liability is HUF 50,000 (EUR 125) per month.</p>	Review whether the company's contractors are affected by the regulation changes and assess its potential tax impacts.	
6	<p><b>Increase in the Central Bank base rate</b></p> <p>The Hungarian National Bank increased the Central Bank base rate on 28 September 2022 by 1.25 percentage points, from 11.75% to 13%.</p>	Assess if the company has any loan transactions with the interest rate tied to the Central Bank base rate.	
7	<p><b>Central Bank raised the rate for overnight collateralized loans</b></p> <p>The Hungarian National Bank increased the interest rate for overnight collateralized loans on 14 October 2022 by 9.5 percentage points, from 15.5% to 25%.</p>	Review whether the company has any overnight collateralised loan facility.	
8	<p><b>Corporate income tax (CIT) and local business tax (LBT) can be paid in foreign currencies</b></p> <p>From 1 January 2023 companies allowed to pay CIT and LBT in EUR and USD. If the company chooses foreign currency taxation from 2023, it must be declared to the tax authority by 1 December 2022.</p>	Assess the foreign exchange exposure of the company and review whether it would prefer to pay its tax liabilities in EUR or USD and declare it to the tax authority within the given deadline.	
9	<p><b>Innovation contribution (R&amp;D tax) liability for branches</b></p> <p>Hungarian permanent establishment (including a branch) of a foreign-registered business must pay innovation contribution.</p>	Review whether the company has any permanent establishments (e.g., branch) in Hungary and assess its potential innovation contribution liability.	
10	<p><b>Tax amendments for 2023 in Hungary</b></p> <p>The latest proposal on the tax amendments for 2023 was submitted but not accepted yet. The amendment does not contain any significant conceptual changes: the main tax rates are left unchanged, and the rates of contributions and social contribution tax are also the same. However, there are some tax amendments for 2023 that could affect many taxpayers in Hungary. In the below we summarize the details of the proposal.</p>	Monitor the tax amendments whether the proposed changes will be accepted.	
11	<p><b>Proposed changes in local business tax (LBT) for small-sized businesses from 1 January 2023</b></p> <p>For small-sized businesses, the proposed law change allows the use of a simplified tax base if its net sales revenue does not exceed HUF 25 million or EUR 62k (HUF 120 million or EUR 300 million for entrepreneurs under flat rate system). Based on the level of net sales revenue, the tax base could be HUF 2.5; 6 or 8.5 million (EUR 6; 15 or 20k). The 1% cap on the LBT rate will not apply from 2023.</p>	Review whether the changes affects the company and assess its potential tax liabilities.	

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	<b>Proposed extension the 0% advertisement tax rate by 31 December 2023</b>	Review whether the advertisement tax would be applicable for the company and follow the potential changes in the future.	
12	The proposal includes the extension of the 0% rate for advertisement tax by the end of 2023. Advertisers will have no tax return filing, tax paying or statement providing obligation in Hungary until such deadline.		● ● ●
	<b>Proposed financial transaction tax exemption related to LBT payment account</b>	Review whether this exemption applies for the company and assess its potential tax impacts.	
13	Based on the proposed changes, technical accounts opened with the Hungarian State Treasury for the payment of local business tax (LBT) in foreign currency will be exempt from the financial transaction tax.		● ●
	<b>Proposed change in the regulation of flat-rate taxation for individual entrepreneurs</b>	Review whether the company's individual entrepreneurs are affected by the change and assess its impacts.	
14	From 2023, flat-rate taxation will be optional irrespective of the amount of income earned in the tax year preceding the tax year in question. An individual entrepreneur choosing flat-rate taxation will declare and pay social contribution tax and social security contributions by the 12th of the month following each quarter.		●
	<b>Proposed compliance changes in the personal income tax exemption for young individuals</b>	Review whether the company has any employees under the age of 25.	
15	Regardless of whether the beneficiary (under the age of 25) has used the tax base allowance during the fiscal year, the tax authority will include the information available to it on use of the benefit in the draft return, which the person may correct and supplement.		●
	<b>Proposed extension of the 5% VAT rate for new houses</b>	Review whether the company carries out or plan to carry out any construction activities related to new houses and assess the potential impact of the extension of the 5% VAT rate.	
16	The possibility to apply the 5% VAT rate on the construction of new housing will be extended by two years.		● ●

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