

Changes relating to the rules of taxation

Classification of taxable persons

The conditions for classifications of reliable and risky taxpayers as well as the legal consequences of the classification will be amended. The new criterion of reliable taxpayer is that taxpayer's average tax liability relating to the tax year should be positive and thus the so called "inactive, dormant companies" will be excluded. Reliable taxpayer will have an opportunity for automatic payment facility in the future under which a payment facility without any surcharge, namely payment deferment, for 12 months can be claimed maximum once a year if their net tax arrears do not exceed HUF 1.5 million at the time of the appraisal of the request.

However, the scope of risky taxpayers will also be extended in the future. Hereafter, those taxpayers will be qualified as risky taxpayers, whose registered office was registered to a registered office provider **and** valid default penalty was imposed on the taxpayers in the tax year or in the previous 3 years due to hindering the tax administration process. Accordingly, the taxpayer claiming registered office services is also subject to additional data provision.

Assistance procedure

A new legal institution, the assistance procedure of the tax authority will be introduced from 1 January 2017. By means of the new procedure, in order to terminate the risks revealed during risk assessment, the tax authority will have an opportunity- instead of starting an investigation- to grant so called professional assistance in order to correct mistakes and deficiencies revealed, furthermore, to call upon the tax payer for self-revision. Participation in the assistance procedure is voluntarily, and no sanctions (penalty, surcharge) may be imposed in respect of infringements settled within the framework of the procedure. At the same time, in case of failure of the procedure, the tax authority may order the start of the regular tax inspection.

Changes relating to personal income tax and social contribution liabilities

Decreasing tax burden on cafeteria

As from 1 January 2017, the value of tax base multiplier of 1.19 will decrease to 1.18 when calculating the tax base of tax burden payable for fringe benefits (e.g. local pass) and certain specific benefits (e.g. private use of business mobile phone e), thus the tax burden of fringe benefits will decrease by 0.3% and of certain specific benefits will decrease by 0.4%.

Decrease of tax burden of income from interest

Health contribution payment obligation of 6% of income from interest will be ceased from 1 January 2017 thus only personal income tax will have to be paid for the interests credited after 31 December 2016.

Changes relating to corporate income tax

Development tax incentives

The conditions relating to the increase of wage cost and number of employees for the use of development tax incentives will be significantly eased from 1 January 2017:



- in case of investments with a current value of a minimum amount of HUF 3 billion, the employment and wage cost must be increased with at least 50 persons (it is currently 150 persons) or by threefold for the minimum wage,
- in case of investments with a current value of a minimum amount of HUF 1 billion, the employment and wage cost must be increased with at least 25 persons or by 150-folds for the minimum wage in order to claim development tax incentives.

In case of investments with a current value of a minimum amount of HUF 500 million of small and medium sized enterprises, the requirement relating to the increase of employment and wage cost prescribed will be declined by

- at least 5 persons or 10-folds for the minimum wage in case of small enterprises
- at least 10 persons or 25-folds for the minimum wage in case of medium sized enterprises.

Corporate tax allowance relating to share acquisition in enterprises at early stage

A new concept and allowance will be introduced relating to enterprises at early stage (commonly known as start-ups) from 1 January 2017. Subsection 4 (30) of the Act on Corporate and Dividend Tax (hereinafter: Corporate Income Tax Act) to be amended **defines the enterprises at early stage as follows:**

- a legal entity which was registered as an enterprise at early stage according to the relevant legislation AND
- in the tax year when the allowance was used , it employs at least 2 persons, at least one person of them is qualified as a researcher and developer under the Act on Scientific Research, Development and Innovation AND
- the enterprise at early stage is not qualified as an affiliated company of the taxpayer entitled to use the tax allowance in the tax years when he uses the allowance.

The details of the government decree relating to the rules of qualification, registration of enterprises are currently not known.

If an investor acquires share in an enterprise at early stage fulfilling the above conditions then he is entitled to the following **tax allowances:**

- he may decrease his corporate tax base by 2.5-folds of the historical cost of shares acquired in the enterprise (including the capital increase after such acquisition) if he would be subject to corporate income tax of 10% according to his tax base calculated without the allowance.
- he may decrease his corporate tax base by 1,5-foldsof the historical cost of shares acquired in the enterprise (including the capital increase after such acquisition) if he would be subject to corporate income tax of 19% according to his tax base calculated without the allowance

The allowance may be claimed in equal instalments in the tax year of the acquisition and in the following three tax years, up to the amount of HUF 20 million per tax year.

The investment company must fulfil the following conditions in order to use the tax allowance:

- Neither the tax payer (investor) nor his predecessor or his affiliated company might be the member of the enterprise at early stage considered within the last three years before using the allowance.



- until the filing of the tax return, the investor company must obtain the certificate issued by the body registering the enterprise at early stage, which includes the registration number on the registration of the investor company, the date of registration, furthermore the same data in relation of the registration of the enterprise at early stage.
- the investor may only use the tax allowance regarding capital increase if the acquired share previously entitled him to use the tax base allowance and the investor may lastly use the decrease in the third tax year following the tax year of his share acquisition in such a way that he may proportionally increase the instalments not yet used with the increment of the historical cost (by taking into account the maximum amount of HUF 20 million per year).
- the amount of tax per tax allowance in case of investors, whereas the amount of investment per tax allowance in case of enterprises at early stage are qualified as so called de minimis allowance (slight amount).

If the enterprise acquiring share derecognizes its acquired shares in the enterprise at early stage from its accounting under any legal title (except transformation, merger, demerger), or dissolves without legal successor within three tax years following the acquisition of the share, then he must increase its tax base by twofold of the tax base allowance used.

If the investor company accounts for a loss of value in respect of its acquisition in enterprises at early stage in the tax year, its tax base must be increased with the amount of such loss of value accounted for in the tax year but by a maximum amount of the tax base allowance used previously.

Corporate tax allowance relating to investments for energy efficiency purposes

As from 1 January 2017, there is an opportunity for the use of corporate tax allowance for energy efficiency purposes in a certified way specified by separate legislation in case of implementation and operation of investment of assets resulting in the decrease of final energy consumption.

The rate of the tax allowance is 30% of the eligible cost (but a maximum HUF amount corresponding to EUR 15 million), which rate can be further increased with 20 percentage points by small enterprises, and with 10 percentage points by medium sized enterprises.

The tax allowance can be used under 6 tax years, not before in the tax year when the investment became operational, while the mandatory operating period of the investment is at least 5 years.

The tax allowance can be exclusively used in respect of investments started following the entry into force of the legislation and made for energy efficiency purposes and can only be used for eligible costs incurred after the start of such investment.

Housing allowance to facilitate mobility, and tax base allowance for the establishment of workers' hostels

The amendment specifies the previous legislation thus, from 1 January 2017, the overall amount of the value reported as the historical cost of the workers' hostel according to Act on Personal Income Tax as well as the increment thereof will also decrease its corporate income tax base and not only the cost, expenditure accounted for in the tax year, in the tax year when the project is completed, the renovation



is done. The rent of the real property leased for workers' hostel can also be considered as an item to reduce tax base.

Changes of tax allowances relating to support

If the tax payer grants support following the publication of the law beyond the deadline for additional support but until the date of filing of the tax return of the company, it will not lose the tax allowances but he will be entitled to 80% of the amount stated in the sponsorship certificate.

If 30 days from the payment of supplementary and additional supplementary sport development support would expire following the filing of corporate income tax return regarding the tax year, then the tax payer does not need to make a separate notification to the tax authority, and it suffices to report the fact of the payments in the corporate tax return regarding the tax year when such support was provided.

Changes in Local Business Tax

From 1 January 2017, the affiliated companies according to Act on Corporate Tax are only required to jointly determine their base for local business tax when applying the restrictive rule relating to the deduction of the value of the cost of goods sold and the value of the mediated services from the net sales revenue if the affiliated company relationship was established through demerger after 1 October 2016.

In case of credit institutions and financial enterprises, in calculating the net sales revenue, the amount of purchased receivables accounted for against expenses of other financial services becomes deductible for taxpayers who have chosen to use gross settlement. The option to choose can be applied with retroactive effect thus as early as when calculating local business tax for tax years commencing in 2015 and 2016.

Changes regarding VAT

Data provision requirement of VAT registered persons relating to passenger car

The data provision requirement of VAT registered persons will also cover the chassis number of the passenger cars in the future and in the following cases:

- import
- community procurement, and
- community sales

It is required to provide data in the when filing VAT return.

Change in the threshold of individual tax exemption

As from 1 January 2017, the threshold of individual tax exemption will be increased from HUF 6 million to HUF 8 million. In terms of the transitional provisions, taxpayers can also take advantage of the option to choose individual tax exemption, whose sales revenues although exceeded HUF 6 million in 2016 but still remained below the threshold of HUF 8 million, including tax payers who exceeded the threshold of HUF 6 million in the previous two years but their sales revenue did not exceed HUF 8 million.



Amendment of duty rules

In case of housing companies, the favourable duty of 2% on property acquisition can only be applied in the future if the housing company covenants that the real estate will be resold within two years through the acquisition of ownership by the purchaser or the lessee. In the absence of this covenant, the duty of property acquisition will increase to 3 %.

Furthermore, the number of cases will significantly fall when the tax authority issues an order for payment. In respect of duty exempt businesses, payment order will be issued only if the application of exemption depends on the implementation of any conditions.

Changes relating to advertising tax

Within the meaning of the accepted amendment, it has become clear that the person or the organisation entitled to use the advertising space is qualified as advertisement publisher (namely being liable to advertisement tax) in case of advertisements published via internet.

Furthermore, the obligation of affiliated companies regarding combination in respect of advertisement tax base will cease without any conditions.