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Hungary – Social Security Developments

by KPMG, Budapest (KPMG in Hungary is a KPMG International member firm)

A new regulation extending the two-year exemption from social security obligations in Hungary for third country citizens, 2014 social security rates, and the entry into force of the Hungary-Japan totalization agreement are the subjects of this *Flash International Executive Alert*.

Why This Matters

Third country citizens who are not considered residents under the Hungarian social security legislation and are assigned by non-Hungarian employers to work in Hungary would be subject to the Hungarian social security system no earlier than 1 January 2015. This could ease administrative burdens on international assignment program managers and help control the costs of international assignments in Hungary. In addition, assignees would have greater certainty concerning where they pay their contributions and in which social security system they are building entitlement.

The new totalization agreement between Hungary and Japan will help foster cross-border business and labor. It will mitigate double taxation and bring greater certainty to Japanese nationals working in Hungary and Hungarian nationals working in Japan with respect to their social security tax obligations in their host country and the (totalized) benefits to which they will be entitled.

Extension of Start Date of Two-Year Exemption Rule

Hungary has extended the two-year exemption rule for third country citizens on assignment in Hungary who would be obliged to pay Hungarian social security contributions and social tax if their Hungarian assignments do not exceed two years. The start date of the two-year exemption period has changed to 1 January 2013 (from 1 January 2012). This amendment to Hungarian legislation entered into force as of 1 January 2014.[1]

Moreover, under certain circumstances, further relief (relating to the employee charges only) may be applicable even after the second year of the assignment.

Background – Old Rules

Third country citizens (i.e., citizens of non-European Economic Area (EEA) member states and any states with which Hungary does not have Totalization (social security) agreement) assigned to Hungary by their foreign employers are not subject to the Hungarian social security system if their assignment does not exceed two years in duration counted from 1 January 2012. Based on the above, such third country citizens would be insured in Hungary as of 1 January 2014, at the earliest.

Summary of New Regulation

An amendment to Hungarian social security legislation entered into force as of 1 January 2014, extending the above two-year exemption rule. The start date of the two-year exemption period has changed to 1 January 2013. Therefore, third country citizens who are not considered residents under Hungarian social security legislation and are assigned by non-Hungarian employers to work in Hungary would be subject to the Hungarian social security system no earlier than 1 January 2015.

Another tax-advantageous rule was introduced: in the case of assignments longer than two years, third country citizens would be further exempted from paying social security contributions in Hungary after the two-year exemption period if:

- the assignment is extended after the first year based on a reason not known at the start of the assignment, and
- the individual declares this extension to the Hungarian tax authority within eight days after extension of the assignment.

This does not affect, however, the third country citizen's liability for the 27-percent social tax after those first two years (and onwards).

KPMG Note

Possible Action Steps for Employees on Assignment

If an assignee returns home after two years of assignment in Hungary, he or she may wish to consider waiting for three years before coming back to work in Hungary to begin a new two-year period without any Hungarian social security liabilities.

Employers' Next Steps

The social security consequences of third country citizens' Hungarian assignments should be examined based on the new regulation. It is also essential to review the contractual arrangements (e.g., official start and termination dates of the assignment).

Hungarian Social Security Rates

The current social security contribution liabilities in Hungary are as follows (same as in 2013):

- Employer part: 27-percent social tax;
- Employee part: 10-percent pension contribution, 7-percent health insurance contributions, and 1.5-percent labor market contributions.

There is no cap or minimum income threshold applied and the basis for the social security contributions is the gross income of the individual.

Entry into Force of Hungary-Japan Social Security Totalization Agreement

The social security totalization agreement concluded between Japan and Hungary entered into force as of 1 January 2014 – Japanese citizens can no longer be treated as non-totalized third country citizens in Hungary. The agreement provides for the determination of a single country's social security legislation (Japan's or Hungary's) that is to be applicable to individuals, thus helping to avoid double affiliation/contributions or the absence of coverage in respect of pensions.

The agreement allows for the "export" of pension rights and provides that each country will pay the individual's pension in accordance with the insurance periods completed under its own legislation; but the periods of insurance completed in the other country will be taken into account to calculate the pension.

Footnote:

1 Section 11/A and 65 of Act LXXX. of 1997 on Social Security (*1997. évi LXXX. törvény a társadalombiztosítás ellátásaira és a magánnyugdíjra jogosultakról, valamint e szolgáltatások fedezetéről 11/A. § és 65. § szakaszai*).

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The information contained in this newsletter was submitted by the KPMG International member firm in Hungary. The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

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