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TAX ALERT
MAY 2015

Expected changes for 2016 to the tax legislation

The expected changes for 2016 to the tax law were submitted to the Parliament on 14 May 2015. The draft law is surprisingly short and mainly includes provisions relating to tax reductions and other relief measures for taxpayers. It is expected that further changes will be made to next year's tax law until December 2015.

Personal income tax and contributions

- The personal income tax rate would be reduced to *15 per cent,* positively affecting not only the personal income tax on wages but also on other separately taxed incomes. In line with the introduction of the general personal income tax rate of 15%, the tax law would also be modified with the necessary corrections (e.g. the amount of the family and first marriage tax base allowance). In the case of several income types the tax base multiplier would be changed from 1.19 to 1.18.
- Within a four-year period starting from 2016, the amount of the *family allowance* per child would double in the case of families with two dependent children.
- The monthly amount of the *health service charge* would be HUF 7,050 as from 2016.
- The changes would be effective from 1 January 2016 and in the case of interest income, a rate of 15% would be applied on interest paid for the period after 1 January 2016 (on a pro-rata basis).

Corporate income tax

- Currently the taxpayer can decrease its tax base by the amount of the revenues from the r*elease of a penalty or the sanctions* stipulated in the Act on the Rules of Taxation and the acts on social insurance if this amount was taken into account as a pre-tax profit increasing item in the previous tax years. According to the draft rules, the tax base could also be decreased by the amount of revenues from the *refund* of the above penalties and sanctions. These rules may also be applied for 2015 tax liabilities.
- According to the draft law, the legislation would be completed with the provision that the taxpayer should take into consideration its various *taxable income from abroad* by calculating the tax rate on its various domestic taxable income if the applicable treaty allows this. This could mean that the taxpayer could be taxed at a higher rate of 19% on its taxable base in Hungary as its foreign taxable income is included in the calculation; however, the taxpayer still not has to pay the tax on that foreign income in Hungary.
- The so called *"increase tax credit allowance"* would be introduced. Companies, whose pre-tax profit is deemed to have increased fivefold YoY to the previous year (calculated on absolute value), can choose that the tax on the excess part can be paid in over following two tax years.

These tax law changes would provide liquidation relief for taxpayers and a greater support for the expansion of the companies' business activities.

In order to apply for the increase tax credit allowance, the tax taxpayer should fulfil several conditions: the tax year of the tax credit allowance applied should be at least the 4th tax year of that taxpayer, and the taxpayer should not have participated in mergers, neither in the tax year of the tax credit allowance applied nor in the previous three tax years, and the taxpayer should apply for the tax credit allowance at the tax authorities up until the expiry of the top-up liability of the company.

It should be noted, that when calculating the increase tax credit allowance, the various interest income, the dividend income and the benefits without compensation received from related parties shall not be taken into account.

If the company no longer warrant benefitting from the effect of the corporate income tax legislation, the remaining part of the "increase tax credit allowance" would be due as a lump sum.

Surtaxes in the financial services sector

- The Proposal may modify the bank tax rules according to the Memorandum of Understanding between the Government of Hungary and the European Bank for Reconstruction and Development (EBRD).
- As of 2016, the Proposal may also bring in tax amendments regarding *credit institutions*. According to this law amendment, the tax base would be calculated based on the credit institutions' 2014 adjusted balance sheets. The tax rate is still 0.15% below the tax base of HUF 50 billion, for a figure above this amount the tax rate would be reduced to 0.31% as of 2016 and to 0.21% for 2017 and 2018 - bearing in mind that the tax payable for subsequent financial years in question shall not exceed the amount paid for the financial year of 2015.
- From 2019, the level of tax on financial institutions should be further aligned; the Government is expected to propose this by 31 October 2018.
- As of 2016, the Proposal would modify the definition of an *investment fund manager,* so that venture capital management companies would be exempted from the payment of both the special distributor and the investment fund tax.
- We would like to highlight, that the current rules would remain unchanged (i.e. tax base and rate) for financial institutions other than credit institutions and investment fund managers.

Value added tax

- In line with the law, the VAT rate on *pork carcasses,* as from 1 January 2016 would be reduced from 27 percent to 5 percent.

Other sectorial taxes

- As of 1 January 2016, 3 percent of *gambling tax income* would be spent on gambler protection schemes and for charity purposes (e.g. running the 24 hours phone Help Line).
- According to the changes in the *Robin Hood tax* (energy suppliers' tax), the benefits without compensation provided not only to local governments but also to the state would be considered as deductible costs and should not increase the tax base (by these amounts). This relief could be applied in the 2015 tax year.
- The changes in tax levels on *public utility cables* include a significant relief designed to support the preparation of new public cables and the development of the existing communication lines.

  In support of the above, as of 1 January 2016, no taxes should be paid on the new public cables for the *first five tax years*. The same relief is applicable for the lines which ensure *broadband internet connections* (at least 100 Mbps speed data link access) be they newly built or not.
- *Healthcare contribution of tobacco companies* would become permanent (i.e. not a one- off tax for 2015). The draft law includes amendments in relation to such a new permanent contribution, and no change is expected in the calculation method or the nature of the tax return required. The draft law would complement the law by stating how to calculate the tax base of taxpayers having a tax year of less than 12 months. The above amendment would become effective as of 01 September 2015. For the calculation of the 2016 tax liability, the net sales revenue for that financial year would need to be taken into consideration, which includes the day when the tax law modification comes into force.

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