



GMS Flash Alert

2022-141 | July 27, 2022



United States - Update: U.S. Treasury Terminates Tax Treaty with Hungary

The U.S. Treasury Department (Treasury) announced that Hungary was notified on July 8, 2022, that the United States would terminate its tax treaty with Hungary.¹ In accordance with the treaty's provisions on termination, termination will be effective on January 8, 2023. However, with respect to taxes withheld at source, the treaty will cease to have effect on January 1, 2024. In respect of other taxes, the treaty ceases to have effect with respect to taxable periods beginning on or after January 1, 2024. (For prior coverage, see [GMS Flash Alert 2022-133](#), July 13, 2022.)

WHY THIS MATTERS

Treaty benefits enjoyed by individual taxpayers under the U.S.-Hungary Income Tax Treaty will no longer be available once the treaty termination is effective. As a result, benefits of lower tax rates on certain income (e.g., interest, dividends), exclusion for certain employment income, as well as relief from double taxation would expire with the termination. This could give rise to double taxation without relief for individual taxpayers and higher international assignment costs for mobility programs.

Background and More Details

The treaty has been in effect since 1979 and at the time of signature, both countries had proportionate corporate tax rates, and Hungary levied withholding taxes on cross-border dividends, interest, and royalty payments.² However, Hungary has slashed its corporate tax rate from 50 percent to 9 percent and did away with withholding taxes on cross-border payments to nonresidents.

Treasury has been discussing the disproportionate corporate tax rates with Hungary, and after an analysis showed that the treaty conferred benefits only to Hungary, Treasury decided to terminate the treaty.

Treasury's decision to terminate the treaty follows Hungary's opposition to a global corporate tax overhaul. The European Union (EU) has been trying to unanimously implement global minimum corporate tax rules, known as Pillar 2 of the OECD's Pillar Two Model Rules.³ Pillar 2 seeks to ensure that large multinational companies pay an effective tax rate of 15 percent in the countries in which they operate. All EU member states except Poland had agreed to adopt Pillar 2 in May. However, as reported, the Hungarian parliament adopted a resolution on June 21 to reject the new Pillar 2 rules. All EU tax directives require unanimity among EU member states for implementation. While Poland has ultimately agreed to adopt Pillar 2, Hungary's opposition effectively blocks the directive from being implemented.

Hungary's opposition to Pillar 2 may have exacerbated the Treasury's concerns about the inequities of the current treaty.⁴ Treasury concluded that the treaty no longer provided reciprocal benefits and left the United States with significant loss of potential tax revenues.

Notably, an updated treaty that has been agreed to by both countries has been pending in the U.S. Senate since 2010.

FOOTNOTES:

1 U.S. Department of the Treasury's read-out, *United States' Notification of Termination of 1979 Tax Convention with Hungary*, (July 15, 2022), <https://home.treasury.gov/news/press-releases/jy0872>. See also, "[U.S. income tax treaty with Hungary reportedly being terminated](#)," in *TaxNewsFlash-United States* (July 11, 2022), a publication of the KPMG International member firm in the United States.

2 For text of the 1979 U.S.-Hungary income tax treaty and the technical explanation, see: <https://www.irs.gov/businesses/international-businesses/hungary-tax-treaty-documents>.

3 For a related report, see "Treasury to Nix Tax Treaty With Hungary for EU Minimum Tax Veto," in *TaxNotes* (online) (July 11, 2022) at: <https://www.taxnotes.com/tax-notes-today-federal/treaties/treasury-nix-tax-treaty-hungary-eu-minimum-tax-veto/2022/07/11/7dms4>. Please note that by clicking on this link, you are leaving the KPMG website for an external site, that KPMG is not affiliated nor is KPMG endorsing its content. The use of the external site and its content may be subject to the terms of use and/or privacy policies of its owner or operator.

4 For a related report, see "U.S. Treasury to end 1979 treaty with global minimum tax holdout Hungary," in *Reuters* (online) (July 9, 2022) at: <https://www.reuters.com/world/europe/us-treasury-end-1979-treaty-with-global-minimum-tax-holdout-hungary-2022-07-08/>. Please note that by clicking on this link, you are leaving the KPMG website for an external site, that KPMG is not affiliated nor is KPMG endorsing its content. The use of the external site and its content may be subject to the terms of use and/or privacy policies of its owner or operator.

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