



Thinking beyond borders: Management of extended business travelers - Hungary

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Key message

An individual's Hungarian income tax liability is determined by residence status and by the source of the income. The taxes are levied using a flat rate. Residents are liable for tax on worldwide income, while non-residents are taxed on income from Hungarian sources. Tax credits are available on long-term savings (such as pre-pension investments, long-term savings accounts, and payments to voluntary mutual funds) and in relation to children, for couples getting married for the first time, for people having a serious illness and for people under the age of 25. No special expatriate tax regime exists.

1.1.1 Key message

Extended business travelers are likely to be taxed on employment income relating to their Hungarian work, but treaty rules are examined closely.

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Income tax

1.1.2 Income Tax

1.1.3 Liability for income tax

An individual's tax liability in Hungary depends on residence status. If an individual is a resident, worldwide income must be declared in the annual tax return.

Non-resident individuals are taxed on their income from Hungarian sources. Residence rules are determined very similarly to income tax treaty rules.

Most categories of income are aggregated, but certain categories are taxed separately (such as dividends and capital gains).

Extended business travelers are likely to be considered resident if they spend more than 183 days in Hungary. If they spend less than 6 months, then the treaty rules are used to determine tax liability.

Employment income is derived from Hungarian sources if it is paid by a Hungarian entity or, the work is performed for a Hungarian entity.

1.1.4 Tax trigger points

There is no minimum number of days when determining tax liability. If an individual is non-resident in Hungary but the Hungarian entity is considered to be the economic employer, then even 1 day of work is taxable in Hungary.

Hungary has adopted the economic employer approach introduced by the Commentary of the Organization for Economic Co-operation and Development (OECD) Model Convention for each assignment/business travel starting from 1 November 2012. The Hungarian Tax Authority issued guidelines in order to determine the economic employer.

1.1.5 Types of taxable income

For extended business travelers who are resident in Hungary, worldwide income is subject to tax in Hungary, but foreign-sourced income that has been subject to tax in a foreign country/jurisdiction is exempted. If they are non-resident in Hungary, the types of income that are generally taxed are employment income, income from Hungarian sources, and gains from Hungarian assets (such as real estate). Fringe benefits provided by a Hungarian entity are taxed at the entity level unless they are subject to tax as income from employment.

1.1.6 Tax rates

Income is taxed at a flat rate. On annual gross salary, 15 percent tax is payable.

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Social Security

1.1.7 Social Security

1.1.8 Liability for social security

Employers pay a 13 percent uncapped social tax on gross salary.

Employees pay an 18.5 percent uncapped social security contribution.

Health service contribution payable by a non-insured individual is 11,800 Hungarian forint (HUF) per month.

Social security is not payable by individuals who are insured in their home country/jurisdiction if a treaty/totalization agreement allows this possibility. If an extended business traveler is insured in an EEA member country/jurisdiction or in a country/jurisdiction with which Hungary has a totalization agreement, those rules apply.

Third country citizen assignees (or EEA/totalization agreement country/jurisdiction citizens who are employed and assigned to Hungary from a third-country/jurisdiction) are not subject to the Hungarian social security system if their assignment does not exceed 2 years. This applies for both the individuals' part of the social security contribution and for the social tax payable by the employer.

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Compliance obligations

1.1.9 Compliance obligations

1.1.10 Employee compliance obligations

Tax returns are due by 20 May in the year following the tax year. Individuals who are not able to prepare their tax returns by this deadline (especially when they have income from foreign sources) could file a declaration by the original deadline indicating the reason for the late filing. Based on this declaration they could file their tax return by 20 November, together with an excuse letter to avoid penalty on late filing.

If there is no local Hungarian employer but the individual receives the remuneration from a foreign entity, the individual is obliged to pay tax advances on a quarterly basis. This generally applies to extended business travelers.

1.1.11 Employer reporting and withholding requirements

If the Hungarian seated employer pays any remuneration to an individual, taxes must be withheld and paid to the tax authority. Withholdings from employment income must be reported to the tax authority.

Social tax and social security contribution are due on a monthly basis, and as a general rule for individuals with a foreign employer the foreign entity should register in Hungary for administration, payment, and tax return filing purposes. If the foreign entity misses this registration, the individual becomes liable for the social security obligations.

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Immigration

1.1.12 Immigration

1.1.13 Work permit/visa requirements

EU/EEA Citizens

EU/EEA citizens must obtain registration cards.

Third country/jurisdiction Nationals

Work permits and visas are required only for third country/jurisdiction nationals (i.e., non-EU/EEA member country/jurisdiction citizens). Visas must be obtained before entering Hungary. Joint work and residence permits can be obtained after arrival to Hungary subject to visa situation of the individual.

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Other issues

1.1.14 Other issues

1.1.15 Double taxation treaties

Hungary has an extended double tax treaty network with over 60 countries/jurisdictions.

1.1.16 Permanent establishment implications

A permanent establishment (PE) could be created as a result of extended business travel, but this would be dependent on the type of services performed and the level of authority the employee has.

1.1.17 Indirect taxes

Value-added tax (VAT) applies at 27 percent on most of the goods and services. Certain goods and services have a preferential lower rate. Excise duty tax is levied on several goods, such as tobacco and fuel.

1.1.18 Transfer pricing

Hungary has a transfer pricing regime. A transfer pricing implication could arise to the extent that the employee is being paid by an entity in one jurisdiction but performing services for the benefit of the entity in Hungary, and certain costs in relation to the work are charged to Hungary.

1.1.19 Local data privacy requirements

Hungary has data privacy laws which is in accordance with the EU standards.

1.1.20 Exchange control

Hungary does not restrict the flow of any currency into or out of the country/jurisdiction. Certain reporting obligations are imposed, however, to control tax evasion and money laundering.

Legislation requires financial institutions and other cash dealers to give notification of cash transactions over HUF3,600,000, suspicious cash transactions, and certain international telegraphic or other electronic funds transfers. All currency transfers made by any person into or out of Hungary of HUF3,600,000 or more must be reported.

In the case of cash transactions over 1,000 Euros (EUR), the person must be identified.

1.1.21 Non-deductible costs for assignees

No costs are deductible from employment income. However, certain assignment related benefits, costs can be provided tax free.

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