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GES NewsFlash

Hungary – Important Changes in Personal Income Tax and Social Security Legislation

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Summary

The Hungarian government presented to the Parliament bills that would amend the tax and social contribution acts.

The proposed changes to the personal income tax include the introduction of a flat rate tax regime with respect to all income (both consolidated and separately taxable), the phasing out of the consolidated tax base supplement, a transformation of the system of family allowances to reduce tax burdens on families and simplification of tax administration.

Personal income tax law changes

According to the bill, most of the amendments will enter into force as of 1 January 2011.

Tax table and tax base

- Provided that the bill is passed, the two-rate (progressive) tax table applied to the comprehensive tax base would be abolished and replaced with a unified 16% personal income tax rate applicable to income in the comprehensive tax base (e.g. employment income) and private income (e.g. dividends, exchange rate gains, interest income, income from the transfer of property). The tax base increasing item added to gross income to form the consolidated tax base (introduced as from 2010) would remain in effect in 2011, but the rate of the tax base addition would be reduced to 13.5% in 2012 and abolished as from 1 January 2013.

Deloitte's View

In light of the changes mentioned above, the personal income tax payment liabilities of expatriates assigned to Hungary will significantly be reduced as of

2011.

Family allowance

- Families with one or two children would be entitled to a tax base decrease of HUF 62,500 per child monthly and HUF 206,250 per child for families with three or more children. The tax base to be reduced is the amount increased with the tax base supplement.

- The bill would extend the applicability of the above tax base reduction to individuals eligible for child care benefit under the laws of any EEA (European Economic Area) member state.

Benefits in kind (Non-cash benefits as of 2011)

- The bill would significantly modify the rules applying to benefits in kind by restricting the range of benefits that may be subject to tax payable by the Hungarian provider. As of 2011, under the main rule, benefits in kind are taxable as part of the consolidated tax base with the related personal income tax liability (and appropriate social security contributions) payable by the individual. The proposed changes will significantly impact – among others – the assignment related benefits and local flexible benefit systems offered by Hungarian companies.

- Most benefits in kind, that are typically provided as part of the local flexible benefit schemes, are currently subject to favourable tax rates (e.g. holiday vouchers, meals, local travel passes, recreation card) and would qualify as non-wage benefits, with the preferential tax rate is retained. According to the bill, such benefits could be provided as being subject to a 19.04% personal income tax liability payable by the provider (a 16% personal income tax on a base that comprises the value of the benefit multiplied by 1.19), without any social security contribution or percentage-based health tax implications.

Deloitte's View
According to the above changes all assignment related and local benefits should be reviewed in order to comply with the new rules.

Social security rules

- The employer social security contributions are planned to be capped but the amount of the cap will be introduced only in the State Budget Act in the end of the year (2010). In accordance with current regulation, the cap on the employee pension contribution will remain in place.

- According to the bill, the concept of the social security liability on employment income received from a non-Hungarian entity with respect to the employment relationship with a Hungarian employer (e.g. certain share related benefits under a share plan) would be changed significantly as the social security charge will be replaced by percentage health tax (27%) due from the employee.

- 14% health tax will be payable on certain types of private income (e.g. dividend formerly taxed at 10%) up to HUF 450,000 in 2011 depending on the individual's social security position and liabilities in Hungary.

- In case of inbound expatriates working in Hungary (and being liable to Hungarian social security), we note that the current social security procedural rules on reporting and filing obligations for a foreign employer would also change.

- According to the bill, a third country citizen individual assigned/seconded to Hungary could be exempted from the Hungarian social security system only if his work in Hungary does not exceed two years (e.g. in case of Japanese or US expatriates).

- For outbound expatriates, the health insurance contribution payable by the individuals who are resident of Hungary for social security purposes but not covered by the Hungarian social security system would be HUF 5,100/month (currently HUF 4,950/month).

Deloitte's View
We note that the employers could benefit from the cap planned to be introduced on the employer social security contributions.

Companies assigning individuals to Hungary should review their contractual and compensation arrangements in order to follow the planned social security procedures arranging compliance for their expatriates, whilst such social security health checks should also take place regarding third country national assignees to ensure the maintenance or availability of exemption from Hungarian social security.

People to Contact

If you have any questions concerning the issues in this GES NewsFlash, please contact one of the tax professionals as follows:

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