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# THE HR SHOOTER

(December, 2010)

## INTRODUCTION

*On November 16, 2010 the Hungarian Parliament accepted several tax law changes which effect the net income of private persons. These changes relate to the tax restructuring policy of the new government. As part of the implementation process the PIT revenue of the state budget will decrease dramatically, however this shortage will be financed with other tax elements payable by corporations in different industries.*

*In the present newsletter we will try to summarize the most important tax law changes which will influence private individuals' net income and the wage cost of companies. Even more, there are a couple of changes relevant for your expatriate employees and may require a review of the current assignment structures.*

*If you would like to get information about the other tax law changes effective as of 2011 or applicable retroactively for 2010, please see our TAX SHOOTER regarding tax law changes 2011.*

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## Introduction of the 16% flat rate in personal income taxation

From January 1, 2011 the personal income tax rate is 16%. This tax rate is applicable to the consolidated tax base and to other income like interest, dividend, sale of real estate and capital gain.

## Effective tax rate of consolidated tax base

The 27% personal income tax base correction item, the so called “supergross”, will remain in the system for 2011, i.e. the effective personal income tax rate of the consolidated tax base is 20.32%. The personal income tax correction item will be abolished in two steps. In 2012 the personal income tax correction item will be 13.5%, consequently the effective tax rate will be reduced to 18.16%. As of 2013 the personal income tax base correction item will cease to exist and the effective tax rate will be equal with the flat rate, i.e. 16%.

## Wage cost versus net income

The wage cost of employers will not change in 2011 compared to 2010. However, the employees’ net income will be reduced by 5%, due to the fact that the pension contribution payable by the employees will be increased by 5%.

Additional to that the 8% private pension fund contribution has been reduced to 0% from October 2010 until the end of 2011. This change does not effect the net income of employees.

## Tax credit

As of 2011 an individual will be entitled to a 16% tax credit of up to HUF 12 100 monthly if the annual income of the year is not more than THUF 2 750. For employees whose annual income is higher than the above mentioned amount, but lower than THUF 3 960, the tax credit will be reduced proportionally.

| | | 2010 | 2011 |
|---|---|---|---|
| **Employee’s liabilities** | | | |
| *Personal income tax* | rate | HUF 0-5 000 000 17%<br>above HUF 5 000 000 32% | 16% |
| | base | tax base correction item 27% | Tax base correction item 27% |
| *Employee’s healthcare contribution* | | 7.5% | 7.5% |
| *Employee’s pension found contribution* | | 9.5%<br>capped - applicable cap 7 453 300 | 10%<br>capped – applicable cap 7 665 000 |
| **Employer’s liabilities** | | | |
| *Employer’s healthcare contribution* | | 3% | 3% |
| *Employee’s pension contribution* | | 24% | 24% |

## Family allowance

In order to reduce the personal income tax base (“supergross”), married couples and spouses can take into consideration a family allowance depending on the number of their dependent children - HUF 62 500 in case of one or two children and HUF 206 250 if there are 3 or more dependent children. It is possible to make a declaration about the application and to share the family allowance between parents.

## Income bearing no tax burden

The definition of income bearing no tax burden will be abolished as of 2011. Starting from 2011 pension and those types of social subsidies which were treated previously as income bearing no tax burden will be treated as tax exempt income.

## Reclassification of non-cash payments

As of 2011 three new categories of non-cash payments are introduced. These are: benefit in kind, fringe benefit and non-cash benefit.

## Benefit in kind

- Travel, accommodation, food, drink, other services provided during a program free or for discounted rate (except travel and accommodation cost of business travel, food, drink, services treated as representation or business gift)
- Group insurance
- Private use of phone
- Business gift (25% of the minimum wage)
- Small value gift (10% of the minimum wage) three times a year
- Representation or business gift if the provider is not subject to corporate income tax
- If the fringe benefit value is higher than the applicable limit described below

The tax base of **benefits in kind** is 119%, the provider company has a payment liability of 16% personal income tax and 27% healthcare contribution.

In case of **fringe benefit** the tax base will be 119% and the provider company has a payment liability of 16% personal income tax.

***Fringe benefit*** – listed benefit provided by the employer

| | 2010 | 2011 |
|---|---|---|
| *Vacation voucher* | 73 500 HUF / year / person | HUF 76 800 / year / person* |
| *Hot meal voucher* | HUF 18 000 / per month | HUF 18 000 / per month |
| *Cold meal voucher* | - | |
| *Training costs* | Official trainings, up to double and half of the minimum wage | Official trainings, up to double and half of the minimum wage* |
| *Schooling assistance* | 30% of the minimum wage | 30% of the minimum wage* |
| *Local public transport passes* | Payable fee | Payable fee |
| *Internet cost* | - | HUF 5 000 / per month |
| *Széchenyi Recreation Card* | - | HUF 300 000 / per year |
| *Contribution to a private pension fund supplementing the employee's membership fee* | 2% of the monthly salary | - |
| *Contribution to a voluntary pension fund* | 50% of the minimum wage per month | 50% of the minimum wage* per month |
| *Contribution to a health fund and self – help fund* | 30% of the minimum wage per month | 30% of the minimum wage* per month |

* Value is equal with the minimum wage which is subject to approval of the Parliament

## Non cash benefit

Any other non-cash benefit should be treated according to the legal relationship between the private individual and the provider company and should be taxed accordingly. Generally such income would be part of the consolidated tax base. The tax base will be 1.27% and the private individual is liable to pay 16% personal income tax and the applicable social security contributions. Depending on the legal relationship, 27% social security contribution or 27% healthcare contribution is payable by the provider company.

## Taxation of interest, dividend, capital gain, sale of real estate

The taxation of income taxed separately (i.e. income from interest, dividend, capital gain, and the sale of real estate) will also change. The current 10%, 20% and 25% tax rates will be replaced by the 16% flat rate, and no tax base addition will be applied. This means that the dividend tax of dividend income from any share registered on stock exchange of an EEA country will increase by 6%.

## Real estate rental income

As of January 2011, the real estate rental income is part of the consolidated tax base and the applicable tax rate is 16%. The realized income can be decreased by 10% flat cost without having any documentation or with the real costs documented properly according to the relevant section of the PIT law.

## Tax advance deduction / payment

Because of the implementation of the flat rate all special rules of the tax advance payment /deduction are abolished. The employer, the disburser or the private individual should calculate, deduct, and pay 16% personal income tax.

## Possibilities to declare the annual income tax liability

***Employer's personal income tax declaration***

- if the employee fulfils certain conditions, it is possible to ask the employer for an employer's tax declaration, however the employer has the right to refuse this request.

***Tax return preparation with the involvement of the Hungarian Tax Authority***

- if the private individual is entitled to ask the Hungarian Tax Authority to prepare a simplified tax return.

***Personal income tax declaration***

- prepared and filed by the private individual

***Tax statement***

- new instrument, first applicable for income realized in 2011, certain condition should be fulfilled.

## SOCIAL SECURITY

### Employee's pension contribution

The pension contribution of the employee will be raised by 0,5% and will reach 10% as of 2011.
The private pension fund contribution will be cancelled as of November 2010. Members of private pension funds are obliged to pay 10% state pension contribution. Till December 31, 2011 the membership fee of the private pension fund will be 0%.

### Employer's social security contribution

The employer's social security contribution remains the same amount as in 2010, i.e. 27%.

### Monthly contribution of non-insured individuals

The monthly contribution for non-insured will raise from HUF 4 950 to HUF 5 100.

### Changes in the social security registration system of expatriates

Starting from 2011 if an employee - who is subject to the EEA social security system - works in Hungary in the interest of a foreign EEA employer and is not protected by a valid A1 statement the foreign employer is obliged to pay, report and register in Hungary for social security purposes, according to the general rule. The foreign employer can exercise its liabilities itself or through its Hungarian branch.

The foreign employer could fulfill its social security declaration, payment and registration requirements by using a Hungarian fiscal representative as well.

However, if the foreign employer will not accomplish its social security declaration, payment and registration obligation, in the above mentioned way, the employer will be automatically obliged to comply with all the Hungarian social security obligations of the employment.

### Assignment

If the foreign employee is assigned to Hungary, the host country employer (Hungary) and the home country employer can agree that the Hungarian social security liability of the foreign employee, if applicable, will be paid by the Hungarian employer.

### Labor hiring

If the foreign employee is employed under a labor hiring contract and the foreign employer is not registering itself for social security purposes, according to the rules described above, the Hungarian company is entitled to declare and pay the social security liability of the employee.

### Third country nationals' assignment related changes

A third country national could be exempted in the Hungarian social security system from 2011 only if the period of assignment or labor hiring does not exceed two years.

### Can we be at your assistance?

In case any employment related questions may affect your company and you have additional inquiries in this respect, please feel free to contact us:

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