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GES NewsFlash

Hungary – Changes to the personal income tax and social security rules for 2012

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Summary

The Hungarian government has recently approved the tax law changes for 2012 that amend the personal income tax and social contribution acts. The tax law changes include amendments with respect to the flat rate tax regime, taxation of benefits in kind, company car tax, social security rates, and tax administration. The amendments will enter into force as of 1 January 2012.

Personal income tax

Tax table and tax base

Based on the amendments, two tax rates are applicable on the consolidated tax base from 2012. The unified 16% personal income tax rate (without tax base increasing item) will apply up to annual income of HUF 2,424,000 (app. EUR 8,000). However, effective tax rate of 20.32% will remain applicable on annual income in the consolidated tax based in excess of the above annual limit.

Benefits in kind

- The new legislation significantly modifies the rules applying to benefits in kind extending the range of benefits that are subject to tax payable by the Hungarian provider. Based on the amendment, benefits in kind, which are provided to all employees under the same conditions or to a part of the employees based on a company policy, can be taxed at the Hungarian employer (at 51.17%) instead of being taxable at the employees as salary type employment income (currently provided with an average tax cost of 106%).

- Certain in-kind benefits to employees typically provided in the form of the flexible benefit schemes will be subject to 30.94% total tax cost (currently taxable at 19.04% by the provider) and could be provided only up to an annual limit of HUF 500,000. The major changes to such benefits are as follows:

  - The internet services can no longer be provided by the employers under the preferential tax regime.

  - Meal vouchers can be provided up to HUF 5,000 per month (currently in value of HUF 18,000 per month) whilst the value of employer provided catering will be limited to HUF 12,500 per month per employee.

- Employers can provide certain benefits through the Szechenyi Recreation Card ("SZÉP Card") up to a cap of HUF 450,000 per annum (currently limited to HUF 300,000 per annum) with the following allocation based on the employee's selection:
    - HUF 225,000 for domestic hotel services
    - HUF 150,000 for restaurant services
    - HUF 75,000 on leisure and recreation services

- Business entertainment and business gifts will be subject to 51.17% tax as of 2012. Currently these benefits could be provided tax free (for personal income tax and social security purposes).

Company car tax

The company car tax has been increased significantly (app. 40%). The amount of the company car tax payable will vary between HUF 7,700 – HUF 44,000 per month depending on the environmental class and the performance of the company car provided.

Deloitte's view

According to the above changes, assignment related and local benefits provided to expatriates and compensation elements to local employees should be reviewed in order to comply with the new rules and to optimize the employment-related tax costs.

Social security rules

The current 7.5% rate of the employee health care and unemployment fund contributions payable will be increased to 8.5%.

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 (or another EEA country's) social security system will be HUF 6,390/month (currently HUF 5,100/month).

As of 1 January 2012, the new social security rules in Hungary will enter into force for third-country national assignees, i.e., a third-country citizen assignee can only be exempted from Hungarian social security if his assignment to Hungary does not exceed two years. Based on the transition rules the two-year exemption period is to be counted only from 1 January 2012, even if the assignment of the third-country national started before 1 January 2012.

Deloitte's view

Companies assigning individuals to Hungary should review their contractual and compensation arrangements regarding third-country national assignees to ensure the maintenance or availability of exemption from Hungarian social security.

Social tax

Based on the new rules, 27% Hungarian social tax will be introduced from 1 January 2012, as the replacement of the 27% employer social security charges and will be payable on the individuals' employment income by the provider of the compensation attracting the social tax. (The 1.5% training fund contribution due from Hungarian employers remain unchanged.)

The 27% social tax will not arise for companies assigning EU nationals being subject to social security of another EU country or third-country nationals falling under the exemption rules.

Tax procedures

Personal income tax return filling – Extension

Based on the amended tax procedure rules, the extension deadline for filing the Hungarian personal income tax return will be 20 November (currently 20 September) subject to conditions set by law in force (e.g., the justification letter regarding the late filing is submitted to the Hungarian tax authority before the original deadline for the submission of the Hungarian personal income tax return).

Registration of the assignees at the Hungarian tax authority

The current reporting obligations regarding expatriates assigned to Hungary to handle by Hungarian host companies will also change. Currently, the Hungarian host companies have registration obligations with respect to the individuals assigned/seconded to the Hungarian company who are regarded as non-Hungarian tax residents during their Hungarian assignment. However, as of 2012, the Hungarian host company will be obliged to register all the individuals assigned to the Hungarian company (regardless of their tax residence position during the assignment).

Deloitte's view

As the new tax legislation has been approved by the Parliament, employers should analyze the tax law changes and review their current compensation schemes for expatriates and local employees and be ready to design and implement revisions for 2012.

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People to contact

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

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