Deloitte.

Global Employer Services (GES)

In this issue:

GES NewsFlash

Hungary – Tax law changes adopted for 2013

January 8, 2013

Several changes to Hungarian personal income tax and social security law took effect from 1 January 2013, which could affect both individuals assigned to Hungary and individuals employed by Hungarian companies.

The following is a summary of the major changes.

Personal income tax base

The 27% tax base adjustment as part of the consolidated tax base is abolished as of 1 January 2013. Accordingly, the personal income tax rate on income involved in the consolidated tax base (e.g., employment income) will be 16% (this tax rate applies to investment income elements as well).

Pension contribution

The employee pension contribution earnings cap (HUF 7,942,200 in 2012) will be abolished in 2013, so the 10% employee pension contribution is payable on the total employment (other activity-related) income due to which the employee social security contributions total to 18.5%.

Deloitte’s view

Employees’ liabilities up to an annual income of HUF 2,424,000 would remain unchanged at the effective tax rate of 16% personal income tax and 18.5% contribution liabilities. In case of annual income between HUF 2,424,000 and HUF 7,942,000, the amount in excess of HUF 2,424,000 would be subject to 16% personal income tax instead of the current 20.32% and the employee social security contributions would remain at 18.5%. As a result, the tax liability of the part of the income above the annual HUF 2,424,000 income would reduce by approximately 4 percentage points, which gives a maximum additional income of HUF 19,865 per month (HUF 238,377 per year). In the case of an annual income of over HUF 7,942,000, 16% personal income tax instead of the current effective rate of 20.32% and the contributions at a rate of 18.5% instead of 8.5% would be payable.

The above should be considered in designing and implementing employee or executive compensation schemes, salary increase, etc.

Social security liabilities of third country nationals

The scope of mandatory social security will be restricted to Hungarian nationals and foreign (third country national) individuals working in Hungary from 1 January 2013. (European Economic Area (EEA) nationals would maintain or acquire coverage according to the European Union social security rules.)

Deloitte's view

We recommend reviewing the contractual and compensation structures in place to potentially benefit from the social security exemption that might apply to third country nationals. For example, as a result of the new legislation, it can happen that an assignee or a supervisory board member is falling out of the scope of social security legislation even if he is contracted and compensated by a Hungarian company as long as he physically does not work in Hungary.

Tax allowance — family tax allowance

The changes extend the scope of the family tax allowance provisions to apply it also to foreign nationals from outside the European Union. It also clarifies the provision by stipulating that their eligibility for the tax allowance applies only if they are not taking an equivalent or similar tax benefit in the same period in another country where their income is also taxable.

Deloitte's view

The amount of the family tax allowance (which reduces the tax base) is monthly HUF 62,500 per dependent in case of one or two dependents and monthly HUF 206,250 per dependent in case of three or more than three dependents. If the employee is entitled to the family tax allowance, the employer should consider the potential savings (as in case of tax equalization, this would typically be a benefit to the company). There are some additional requirements dictated by law that should be fulfilled while adapting this allowance. These requirements should be examined case-by-case due to the individuals' circumstances.

Dividend income taxed separately

Currently, an individual's dividend income from foreign sources is subject to quarterly tax advance payment liability (similar to the employment income from foreign sources). From 2013, in lack of a Hungarian disburser (e.g., in case of dividend paid by the foreign entity), no personal income tax liabilities are to be paid in advance during the year, and the applicable personal income tax liability is to be settled by the filing deadline of the tax return (i.e., 20 May following the calendar year concerned).

Insurance schemes

As of 2013, the tax definitions and rules of insurance schemes will be largely modified. Previously, benefits provided under insurance schemes (both the insurance fees paid for the benefit of the employees/executives and the benefit paid by the insurance companies) were generally tax free. However, as a result of the new legislation, unless specific rules apply, the above benefits could attract income tax and social security/health tax.

Deloitte's view

Based on our experience, many companies (both Hungarian located and foreign companies) provide insurance scheme benefits with different conditions to their employees or executives occasionally due to the beneficial tax treatment of such insurance schemes. The new legislation contains various types of insurance schemes with different taxation and also includes different conditions for each insurance type that should be met to provide the beneficial tax treatment. Therefore, we would recommend reviewing the benefits provided to the employees/executives to identify potential additional tax obligations or exposures or to maintain the tax-free treatment of the insurance scheme benefits.

Noncash benefits (flexible benefit scheme)

There are various tax law changes affecting the benefits provided by Hungarian employers as part of flexible employee benefit schemes. For example, there is a minor change in the value of the “Erzsebet” meal voucher that could be provided (HUF 8,000 per month instead of the current value of HUF 5,000 per month), and the health tax levied on in-kind benefits increases from the current 10% to 14%, which will result in a total cost of 136 instead of 100 units’ benefit (total cost of 131 units in 2012).

Furthermore, from 2013, a tax-free benefit could be provided by a Hungarian company in the form of a ticket or season ticket for cultural services (e.g., theatre tickets, tickets for dance, circus, or music shows) together with tickets/season tickets for sports events up to HUF 50,000 per year per individual. This type of benefit could be provided not just to employees but to other individuals (e.g., assignees).

Deloitte’s view

Although the cost of noncash benefits will slightly increase as of 2013, companies still have interest to provide such benefits to meet the employees’ expectations, and these benefits would still cost less than cash benefits (approximately 30% difference in total costs). Therefore, we recommend the examination of flexible benefit schemes so companies can update their compensation systems via including new or modified elements.

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:

László Szakál
Partner
lszakal@deloittece.com

Eszter Gyuricsku
Director
egyuricsku@deloittece.com

This NewsFlash information is also included in our biweekly GES newsletter, *Global InSight*, which you will receive directly if you are on the central distribution list.

If you are not on the central distribution list and received this communication by some other means, you can follow these few simple steps to be added to the central distribution list:

- Go to the **Deloitte subscriptions page** on Deloitte.com.
- Enter your email address to login or create a profile.
- On the next page, enter your contact information and choose Tax: Global Insight under Email Newsletters.
- Click “Save profile.”

Be sure to visit us at our website: **www.deloitte.com/tax**.

Dózsa György str. 84/C
1068 Budapest
Hungary