Face to Face Business

NEWSLETTER 4/2018

In the followings we would like to inform you about the most important changes affecting entities being subject to Hungarian tax obligation:

1. **Limitation of interest deduction for corporate income tax base**
2. **Corporate income tax group**

1. Limitation of interest deduction

From 1st January 2019, the regulations effective to date will be replaced by the interest limitation rules based on the Council Directive 2016/1164.

Based on the new rules, the part of net financing costs exceeding the higher from 30% of the EBITDA (earnings before interests, tax, depreciations and amortisation of the tax year) or HUF 939.810.000 (approx. EUR 2.9 million) is not deductible when determining the base of corporate income tax.

In the case of financing agreements concluded before 17th June 2016, the new interest limitation rule shall be considered for the first time when the funding of such contracts is increased or the duration is extended, from the following day of the date of the amendment's entry into force, with regards to the modified funding amount or duration. Otherwise for financing agreements concluded before 17th June 2016 the former thin-capitalisation rules shall be applied, but the taxpayer might opt for the application of the new interest deduction limitation rule.

2. Corporate income tax group

From 1st January 2019, certain corporate income taxpayers will have the option to fulfil their corporate income tax liability as a group. This can be carried out in the framework of corporate income tax group, the establishment and joining of which is not mandatory, it is based on the decision of the taxpayer.
The request for the establishment of corporate income taxable group can be submitted between 1st January and 15th January for the first time, based on which, in case of acceptance of the tax authority, the group is formed with the effective date 1st January 2019.

The corporate income tax group can be established by at least two taxpayers being subject to Hungarian corporate income tax. Precondition for the establishment is having related party relationship based on at least 75% share on voting rights.

In the first step the single members of the corporate income tax group have to determine their individual tax base according to the general rules. The group will calculate its common tax base as the sum of the individual tax bases of the members. The sum of the negative tax bases of individual members can be considered as decreasing item maximum up to 50% of the total of the positive tax bases of other members when determining the corporate income tax base of the group.

For the transactions between members of the corporate income tax group no transfer pricing documentation shall be prepared. When determining the tax base of individual members the general rules about the base modification due to differences between transfer prices used and arm's-length prices shall not be applied.

The aim of this document is to provide general information about the upcoming changes. In order to clarify what steps shall be taken so that Your undertaking properly complies with the above changes, please contact us individually.

Kind regards,
TPA Consulting Kft.

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