



NEWSLETTER 2/2021

Dear Client,

In our present newsletter we summarize the key facts of the changes to the tax-related legislation effective from 1 January 2021.

Corporate income tax

Permanent establishments

As of 1 January 2021, a permanent establishment is constituted, if, in the absence of a physical place, the Hungarian presence of a foreign person materializes in the provision of service of an employee or any other private individual, provided that the duration of the activity exceeds 183 days in one calendar year.

The above rules shall be construed in accordance with the double tax treaties.

In addition to the above, it is an important new rule that a foreign person must always be considered to have a permanent establishment in Hungary, if there is a double tax treaty or international agreement concluded between the state of residence and Hungary, and according to which the activity constitutes a permanent establishment. This means that the DTT or international agreement is superior to the Hungarian CIT Act, i.e. a permanent establishment may arise on grounds of the DTT or agreement, even if it would not arise under the Hungarian corporate income tax law.

Development reserve

From 2021 the former 10 billion forint threshold of the development reserve is abolished, meaning that as of 2021 a development reserve may be created up to the amount of the pre-tax profit of the tax year, and the tax base decreasing item may be applied up to this amount as well.

Depreciation may still not be taken in to account for tangible assets purchased from development reserve.

Personal income tax

Personal allowances

Until the end of 2020 in case of certain diseases the payable tax could be decreased by a certain amount defined by law. From 2021 the tax base might be reduced with a certain tax base reducing item, the amount of which is defined as a proportionate amount of the minimum wage.

NEWSLETTER 2/2021

Exemption of coronavirus tests and vaccination

From November 2020, the epidemiological screening tests ensured by the paying agent and vaccination are tax free, also in a retrospective manner, irrespective of the date of the payment.

VAT

Reduced VAT rate of residential properties

In the case of newly built residential properties the VAT rate is 5% again, if the aggregate useful floor area of the property does not exceed 150 sqm. In the case of single apartment residential property, the tax rate is 5%, if the useful floor area does not exceed 300 sqm.

A real estate qualifies to be newly constructed, if it has not been entered into use, or if the period between entering into use and sale is less than 2 years.

The reduced VAT rate shall be applied on transactions conducted between 1st January 2021 and 31st December 2022. Sales in the period 1st January 2023 and 31st December 2026 are also subject to the 5% VAT rate, if the building permit becomes final on 31st December 2022 at latest.

Online invoice data reporting

From 1st January 2021 (with a 3-month long grace period) the online invoice data reporting system will be extended, data shall be supplied about all invoices issued according to the Hungarian VAT law.

In comparison to the regulations effective from 1st July 2020, the reporting obligation is extended to invoices issued to private individuals, invoices about tax free export, intra-Community product sale and about tax free service provision to foreign client.

Distance sales of goods

In the case of intra-Community distance sales, the product is taxable according to its place of destination.

In order that the administrative burdens are relieved, the place of delivery is the member state where the seller is established, if the aggregate value of sales in the calendar year does not exceed the threshold determined by the destination country (in the case of Hungary this is 35.000 EUR).

The taxpayer may opt for taxation according to the main rule even below the threshold.

For sales above the threshold, the VAT rate of the country where the final user is established shall be applied.

NEWSLETTER 2/2021

At the same time, the registration obligation in the destination country will cease, a single-window system will be available on EU-level instead, meaning that the tax payer may pay the tax in the country of its residence.

Fixed-rate tax of small taxpayer enterprises (Hungarian abbr. “KATA”)

New, 40% tax rate

If, from the beginning of the year, the domestic principal pays more than 3 million forint income to the same KATA subject within the same year, the principal shall pay 40% tax after the part exceeding 3 million forint.

The deadline for the first time when the principal shall calculate the tax, submit tax return and pay the tax is the 12th day of the month that follows the month in which the 3 million forint threshold has been exceeded.

In case the income exceeding 3 million forints is paid by a foreign principal, the small taxpayer shall calculate the tax, submit the tax return and pay the tax amount.

The principal shall inform the small taxpayer enterprise about the amount taken into account as the base of the 40% tax until 31st January of the year following subject year.

In order that the above tax obligations are met, the small taxpayer having contractual relationship with the principal shall inform the principal in writing about that it qualifies as small taxpayer. In case of already existing contractual relationships, the deadline of informing the principal about small taxpayer status is 15th January 2021.

Besides, the regulation prescribing data supply obligation of the principal towards the tax authority until 31st March in the year following subject year remains to be effective, if, within the calendar year, the principal pays more than 1 million forint to a small taxpayer.

Local business tax

Temporary activity

As a relief, from 1st January 2021, local business tax on temporary activities shall not be paid after construction activity that spans less than 180 days.

Correction of the arm's length price

Similarly to corporate income tax, in the calculation of local business tax base, correction due to arm's length

NEWSLETTER 2/2021

price shall be applied in the case of related undertakings. However, in line with the CIT law, the decreasing of the tax base is possible only in case the other party declares that it increases its tax base with the amount in question.

Local business tax rate 1 %

The local business tax rate in certain cases shall be reduced from the maximum 2% to 1% in the tax year ending in 2021. The preconditions of the tax benefit are summarized in our newsletter 1/2021.

The aim of this document is to provide general information about the upcoming changes and does not substitute tax advisory. 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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