



BUILDING A GROWTH-FRIENDLY TAX ENVIRONMENT

# Tax Administration Theme Day

## Fifth Event

20 July 2023



BUILDING A GROWTH-FRIENDLY TAX ENVIRONMENT

# Taxation of Foreign Investments in Hungary and the Hungarian Tax and Customs Agency (NTCA)

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Part 1

# **Tax system of Hungary and the NTCA**



# Characteristics of the Tax System

## Complex

- More than 60 tax types (taxes, customs, duties, contributions)

## Permanent

- The structure has experienced no significant changes, only the detailed rules get amended

## Self-taxation

- Monthly, quarterly and annual tax returns

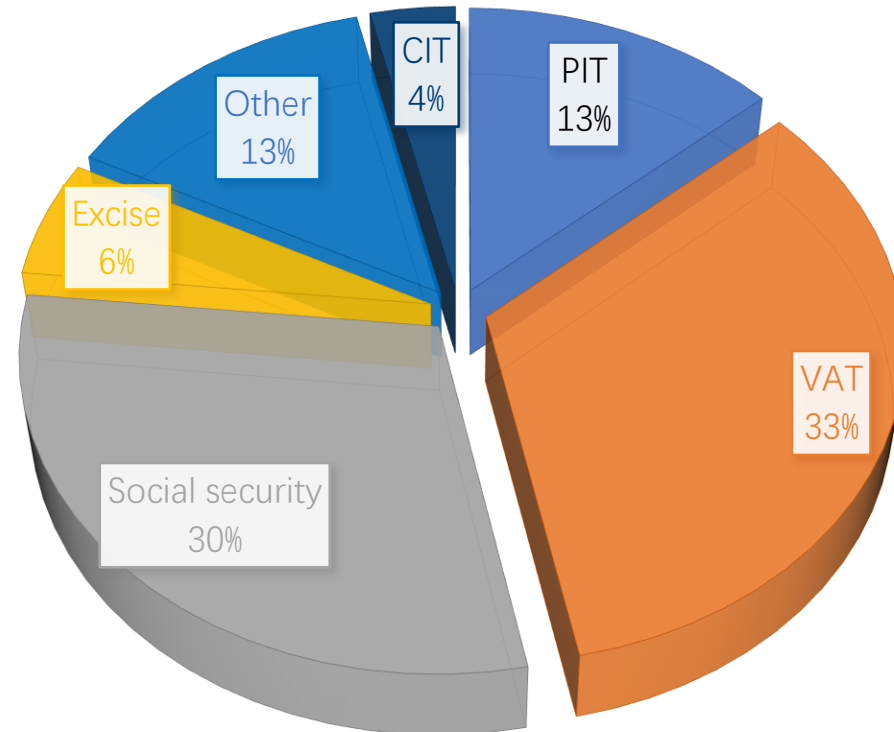
## Tax authority

- Our Agency is responsible for 95 per cent of the tax collection in the country



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# Distribution of Tax Revenues 2022

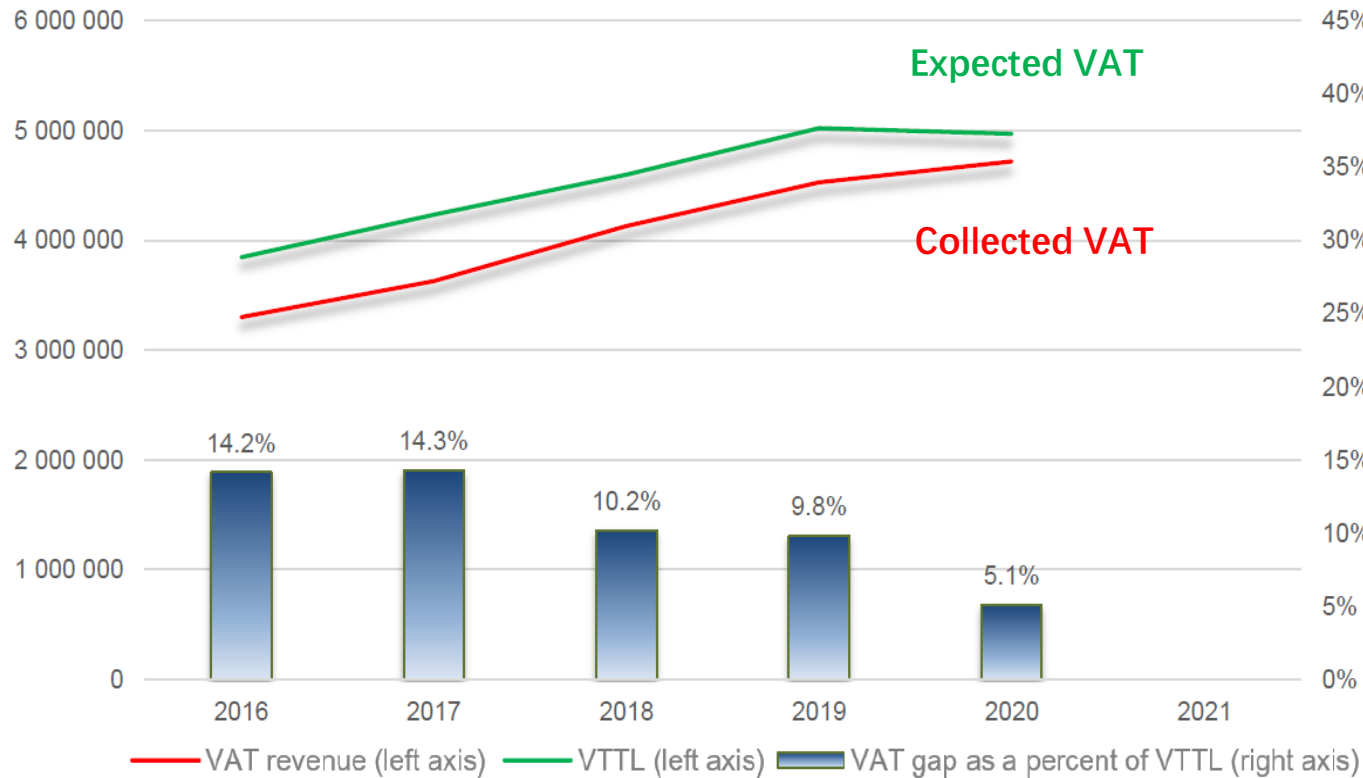


\*PIT: Personal Income Tax  
CIT: Corporate Income Tax

**2022 revenues 20 602 billion HUF** (~55-60 billion EUR/USD; ~438 billion CNY)  
(95% of all state budget tax type revenues are collected by the NTCA)

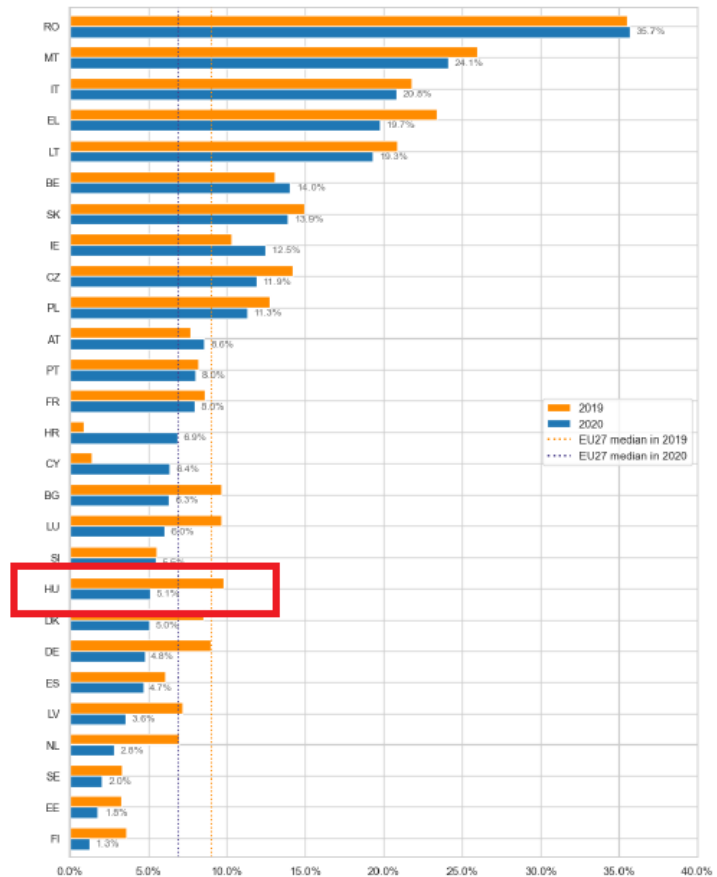


# EU VAT-Gap Indicator



Source: EU COM CASE (2022)

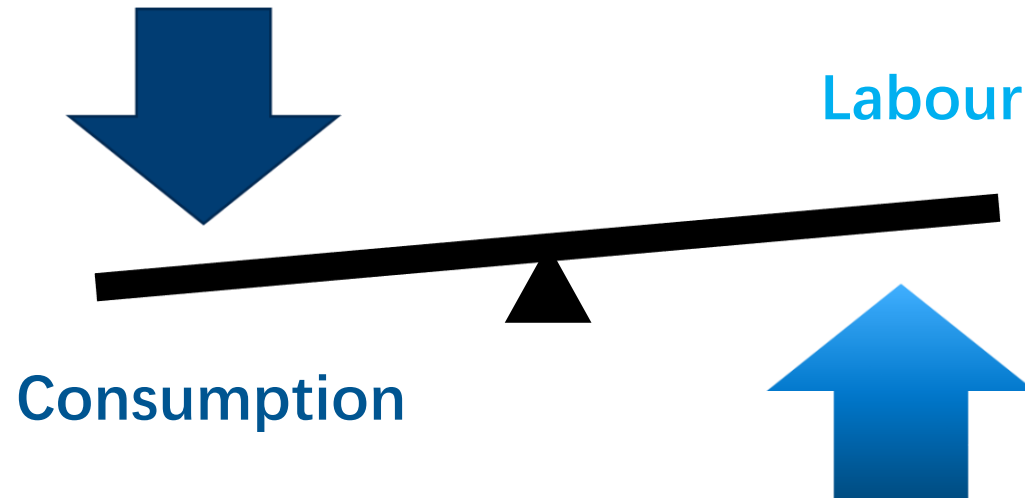
VAT compliance gap by Member State (as % of VTTL, 2019 vs. 2020)



5,1 per cent (2020), this indicator shows significant decrease of VAT gap, it fell roughly more than two third since 2011.



# Restructuring the Tax System of Hungary (since 2010)

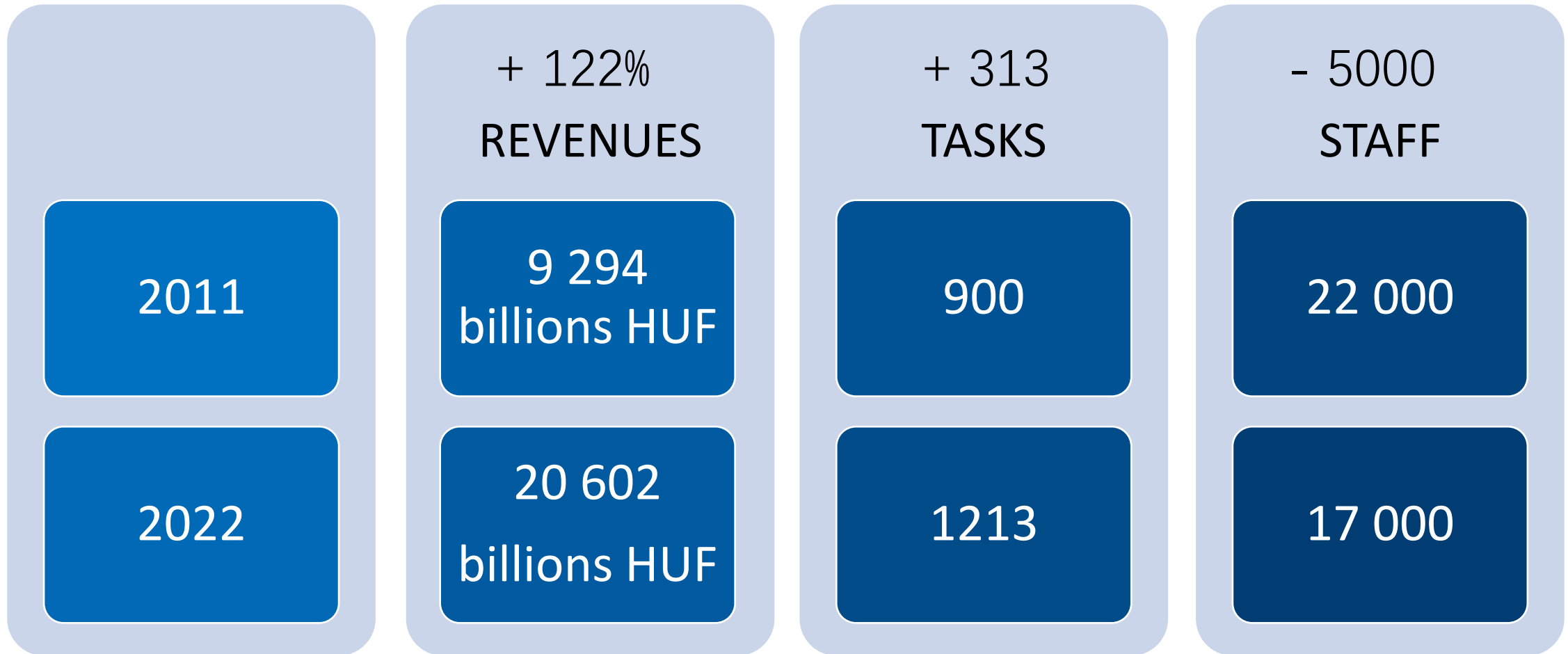


- Increasing the taxes on consumption while **reducing taxes on labour**
- Single rate PIT of 15%, low corporate tax rate of 9%, meanwhile the general VAT rate of 27%
- Simplification of tax administration (digital solutions)
- Maintaining the achieved results and introducing special taxes during critical times (e.g. the Covid pandemic in recent years or the Ukraine war)





# Eleven Years of the Integrated Organisational Model





## Part 2

# Tax Types on Businesses



## 2.1. Corporate Tax

Tax rate: **single rate, only 9 per cent**

**Tax subjects:** - resident taxpayers (mostly companies but foundations, associations and many other legal entities are also subjects AND those non-residents whose principal business management is in Hungary)

- non-resident enterprises (domestic branches of foreign companies)

**Taxable activity:** - resident taxpayers: income from Hungary + income from abroad

- non-resident enterprises: income from business operations of domestic branches

**Tax base:** - resident taxpayers: pre-tax profit (under Hungarian accounting rules)

adjusted by deductions and increasing factors (under the Corporate Tax Act)

- non-resident enterprises: pre-tax profit adjusted as above + income from the sale of shares in companies with domestic real estate holdings (at least 75 percent of its assets are Hungarian real estates)

**Notable tax-base deductions:** - Provision for developments (amount of retained earnings reserved for future developments)

- Deferred losses of the previous years

Total tax liability

Limited tax liability

Up to 50 % of pre-tax profit

Up to pre-tax profit (!)



## 2.1. Corporate Tax

Calculated Tax =  $\text{Tax Base} \times \text{Applicable 9 per cent Tax Rate}$

Various tax allowances that reduce the calculated tax:

- Investment Tax Incentives (except for investments implemented by large companies in the territory of Budapest)
- Tax Credit on Investments, Renovations for Energy Efficiency
- Sponsorship of Popular Team Sports
- Support Provided to Cinematographic Works
- Allowance for Small and Medium-Sized Enterprises (based on the interest of their bank loans for investment purposes)

Reduction up to 80 per cent of the calculated tax

Reduction up to 70 per cent of the calculated tax

Payable tax =  $\text{Calculated Tax} - \text{Tax Allowances}$

\*Note: Municipalities may also impose Local Business Tax on corporations (their local branches, premises, places of business) up to 2 per cent of a modified amount of their net sales revenue.

For further information businesses shall contact the municipalities where they wish to set up business establishment.



## 2.2. Social Contribution Tax of Employers

**Tax Rate:** single rate, **13 per cent** (used to be 27 percent at its introduction in 2012)

**Tax Base:** - gross wage/salary of the employees  
- 118 percent of the value of non-wage benefits and other employee benefits

**Tax Allowances:**

- For employees in agricultural jobs and for non-qualified employment
- For new entrants to the labour market
- For women raising 3 or more children, entering the labour market
- For persons with reduced ability to work
- For persons in public employment (not available for companies in the business sector)
- For the employment of research workers
- For research and development activity
- For vocational education and dual training (in higher education)



## 2.3. Value Added Tax (VAT)

Common EU framework rules  
(Council Directive 2006/112/EC and  
Council Implementing Regulation 282/2011)

Hungarian VAT Act



VAT  
rates

27 per cent

(general tax rate)

18 and 5 per cent

(certain goods and services listed in the VAT Act)

**Tax subjects:** „Any person or organization with legal capacity who (that), in its own name, carries out in any place any economic activity , regardless of the purpose or the results of that activity. Economic activity means any business activity pursued independently on a regular or continuing basis for the purposes of obtaining income, or that results in the obtainment of income.” (definition from VAT Act, based on EU framework)

The **application of VAT rules heavily depends on who is regarded as a VAT subject (tax subject)** and who is not.  
How to decide whether an entity/individual/organization is a VAT subject or not?

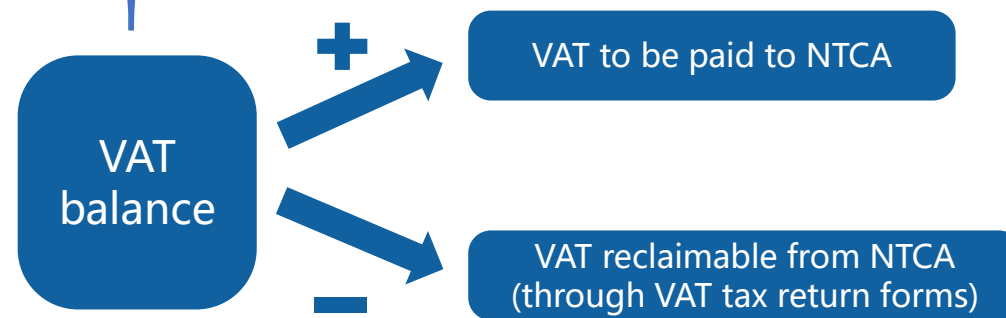
- **Hungary:** all domestic VAT subjects shall have a Hungarian tax number
- **Persons in other EU States:** Community Tax numbers (as evidence for being a tax subject) can be checked on the EU Commission website (VIES system)
- **Persons outside the EU:** Due to the lack of common rules, guidelines on a global level we can only rely on the definition mentioned above



## 2.3. Value Added Tax (VAT)

VAT chargeable	VAT deductible
+ Supply of goods/services domestically for consideration	- VAT on services or goods acquired for business activity
+ Intra-Community acquisition of goods for consideration (purchased from another EU country and shipped to Hungary)	- VAT on services or goods acquired from EU for business activity
+ Importation of goods from outside the EU	- VAT on imported goods from outside the EU
+ Acquiring services from EU/outside of EU that are to be taxed in Hungary („reverse charge procedure”)	- VAT on account (advance payment) paid to suppliers
+ Acquiring certain goods and services from domestic suppliers where the purchaser shall pay the tax („domestic reverse charge procedure”)	- VAT on goods and services acquired for creating tangible assets

Prerequisites to VAT deduction
- Taxable business activity in Hungary
- Supplying goods/services to territories outside of Hungary (if such activities gave rise to deductibility if carried out inside Hungary)
- Selling goods to other EU countries/exporting them outside the EU (exempt from domestic VAT)
- Supplying services to other EU countries/outside of EU (exempt from domestic VAT)





## 2.4. Smaller and sectoral taxes on businesses

- **Company Car Tax:** Fixed amount duty per month (ranging from HUF 14.000 to 81.000 based on the engine performance and the age of the vehicle), only on passenger cars, vehicles affected by the tax: the ones owned by the company and or used in financial lease (electric and zero-emission cars are exempted)
- **Customs:** duties on imported goods (from outside the EU) based on uniform EU rules, the whole revenue is transferred to the EU budget
- **Excise tax:** Tax on the turnover of energy products, alcohol products and tobacco products, based on EU framework rules
- **Environmental Protection Product Charges:** Tax on the turnover of products that cause environmental damage (tyres, accumulators, packaging materials, various plastic products etc.)
- **Public Health Product Tax:** Tax on the turnover of products that pose a health risk (salty and oily snacks, sweets, sodas etc.)
- **Retail Tax:** On the net turnover of bigger retailers
- **Duties on Acquisition of Properties:** One time payment at the purchase of motor vehicles calculated on the basis of their engine performance and age. Acquisition of domestic real estates (both ownership and other related property rights) is also taxed: based on the market value the rate of duty is 4 per cent up to HUF 1 billion (~EUR/USD 2.6-3 million or CNY 21-22 million) and 2 per cent on the portion of its market value above that but the amount of duty shall not exceed HUF 200 million per property.





## Part 3

# Tax Obligations of Businesses



## BUILDING A GROWTH-FRIENDLY TAX ENVIRONMENT

### Regular Tax Obligations

#### Tax Returns

- Employment related tax return (monthly)
  - Deducting Personal Income Tax and Social Security Contributions from the gross salary/wage of employees
  - Assessing the Social Contribution Tax based on gross wages/salaries
- VAT tax returns (monthly for bigger enterprises)
- Corporate tax return (yearly)
- Tax returns for other taxes (quarterly in most cases e.g. Company Car Tax, Environmental Protection Product Charges)

#### Data Reporting

Shall be fulfilled...

...as parts of tax return forms (e.g. corporate tax return form)

...by submitting separate forms (e.g. 'A60 form is solely for supplying data on Intra-Community transactions of VAT subjects)

...by using online platforms or data supply protocols (e.g. the EKAER System for certain B2B sales or the Online Invoice System for the data from invoices)

#### Tax Payments

Tax payment has the same deadline as that of the tax return on that particular tax (or very close to it)

Tax advances are to be paid by law in the case of several tax types (in most cases based on the assessed tax in previous tax returns)

monthly

quarterly



## Part 4

# **Instruments to Assist Taxation and Supervision**



## BUILDING A GROWTH-FRIENDLY TAX ENVIRONMENT

- **EKAER System (Electronic Public Road Trade Control System - ekaer.nav.gov.hu)**
  - Reporting (data disclosure) obligation for certain businesses
  - B2B transactions of goods
  - In case goods are transported on public roads
  - Domestic sales (in the supply chain only the first one subjected to VAT), Intra-Community sales and Intra-Community movement of goods for purposes other than sales
  - Scope of reporting (used to include all kinds of goods) is now limited only to certain listed products deemed „risky” from VAT perspective (clothing, raw materials for food, certain construction materials and chemical products which used to be affected by VAT evasion and VAT fraud)
  - To be reported only over a certain value and weight in the case of each payload

since 2014

- **Online Invoice System (onlineszamla.nav.gov.hu)**
  - VAT subjects shall disclose data on all invoices made out/issued about their supply of goods and services IN CASE those invoices are subject to the provision of Hungarian VAT Act. Overwhelming majority of data supply takes place automatically right after VAT subjects make out their invoices.

since 2018

- **Online cash registers**
- **E-Receipts (in progress)**

since 2013

a future substitute for cash registers

- **VAT tax return drafts/provisional VAT tax returns (in progress)**  
(for Personal Income Tax online tax return drafts have been prepared by the NTCA since 2017)

Source data

Hungarian VAT

Biggest slice in the budget

Requires the most instruments to maximize VAT revenues



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**THANK YOU FOR YOUR ATTENTION!**

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