

## **Act CXVII of 1995 on Personal Income Tax**

In the interest of ensuring tax revenues and based on the constitutional duty of citizens to contribute to public revenues, the Parliament has adopted the following Act:

### **PART ONE**

#### **GENERAL PROVISIONS**

##### **BASIC PRINCIPLES**

- In the Republic of Hungary private individuals shall fulfill their constitutional duty to contribute to public revenues from their income in accordance with the provisions of this Act, with due consideration of the provisions of the Taxation Act as well.
- The purpose of this Act is - by applying the principles of balance and equity - to secure the tax revenues necessary for the fulfillment of State responsibilities, and in special cases, to promote the implementation of certain social and economic goals.
- Any and all income of a private individual shall be subject to taxation. Different rules or tax allowances, for objectives of particular import, may only be established by an Act, with due consideration of the basic principles of this Act.
- Any divergent provisions or tax allowances, affecting tax liability and the rate of tax, and resulting in the reduction of a private individual's tax may only be applied, and/or enforced to the extent that the contents of the contract, legal transaction, or other similar actions providing such basis, accomplish the purpose of the divergent provision or tax allowance. Applicability, and/or enforceability shall be proved by the party whose interest it serves. If the parties attempt to enforce or increase the benefits derived from the application of the rules of taxation either by deviating from customary market values and prices, or by fictitious legal transactions, these shall be disregarded when establishing tax liability.
- Private individuals, and other persons participating in or influencing the tax payment liability of such individuals, shall observe the basic principles set forth in this Section, in respect of the circumstances affecting tax liability and/or the rate of tax, when applying the relevant provisions.
- Subject to certain exceptions, income tax shall be assessed and paid in each calendar year on the basis of the total income, however, tax advance(s) shall be paid so as to ensure the continuous flow of tax revenues.

- Taxpayers shall be entitled to apply for refund of any taxes paid on income they may have earned in connection with invalid contracts or any other unlawful way following restoration of the original state, in compliance with the rules on self-revision. If the original state has been restored before the deadline set for fulfillment of tax liabilities, the taxpayer affected shall not be subject to the obligation of assessment of tax and tax advance, deduction, declaration and payment, nor the obligation of data disclosure in connection with the income earned in connection with invalid contracts or any other unlawful way.
- Taxpayers shall be required to amend the expenses claimed on any expenditure they may have incurred in connection with invalid contracts or any other unlawful way within 15 days following restoration of the original state, in compliance with the rules on self-revision, and to reassess their income and the tax in view of such lower expenses. If invalidity was declared before the assessment of income, the taxpayer affected may not claim any expenses on the expenditure incurred in connection with the invalid contract or any other unlawful way.

#### **SCOPE OF THE ACT**

- This Act shall apply to private individuals, their income and the tax liability on such income.
- In certain cases stipulated by law related to the tax liability of private individuals, tax liability shall also apply to the parties from whom income is received. Payers (employers), falling within the sphere of the Treasury and those funded by local authorities as defined by the Act on the Central Budget, shall fulfill the above obligations with the difference that where the withholding or payment of tax or tax advance is prescribed by law, it shall be understood as the assessment of tax or tax advance.
- For the purposes of tax assessment, private individuals shall account for their revenues and expenses in accordance with the provisions of this Act, even if they also fulfill bookkeeping obligations pursuant to the provisions of other laws.
- Resident private individuals shall be subject to tax liability in respect of all their income (all-inclusive tax liability). The tax liability of nonresident private individuals shall apply to income that originates in Hungary as the place of gainful activity or is taxable in the Republic of Hungary by virtue of international agreement or reciprocity (limited tax liability).
- Where an international agreement promulgated by an Act or Government Decree stipulates any derogation from this Act, they shall override the provisions of this Act. Derogation from this Act is also permitted if there is reciprocity, provided that this does not result in further tax liability on the part of the taxpayer when compared to those defined by the provisions of this Act. The position of the Minister of Finance shall be authoritative in respect of reciprocity.
- Tax liability for income that is earned in a foreign country or also taxable in a foreign country by virtue of international agreement or reciprocity shall be assessed on the basis of this Act in consideration of the relationship between the parties concerned and of the circumstances of the gainful activity and the tax liability (including the assessment of income) shall be performed accordingly. This income shall not

be subject to the provisions pertaining to in-kind benefits (with the exception of determining the amount of the income).

- The tax liability of private individuals that normally falls on the payer and is for incomes obtained in connection with the private use of an automobile owned or operated by a foreign-registered legal person or other organization and with the differential on the interest on loans provided by a foreign-registered legal person or other organization shall be performed as governed by the provisions relating to company car tax and on income from interest rate discounts, if the foreign-registered legal person or other organization provides such income to the private individual by ways other than through their domestic business establishments, branch offices or commercial representations.

## DEFINITIONS AND INTERPRETATIVE PROVISIONS

For the purposes of this Act, the terms used herein shall be interpreted as follows:

- Domestic territory: the territory of the Republic of Hungary including duty-free areas.
- *"Resident private individual"* shall mean any citizen of Hungary (with the exception of dual citizens without a permanent or customary residence in Hungary), foreign nationals holding a valid permanent residency permit and stateless persons as well as natural persons
  - a) whose only permanent residence is in Hungary;
  - b) whose center of vital interests is in Hungary if there is no permanent residence in Hungary or if Hungary is not the only country where they have permanent residence; center of vital interests is located in the country to which the private individual is primarily tied by bonds of family and business relations;
  - c) whose customary residence is in the domestic territory if there is no permanent residence in Hungary or if Hungary is not the only country where they have permanent residence, and if their center of vital interests is also unknown.
- *"Nonresident private individual"* shall mean all natural persons other than resident private individuals.
- A private individual with a permanent residence or a regular place of stay in Hungary shall be considered domiciled in Hungary. A permanent residence is a residence where the private individual makes his home on a permanent basis. If neither of the above is located in Hungary, domicile shall be determined by the permanent residence located in another State. In the event that a private individual has permanent residence in the territory of several states, the domicile of such individual shall be determined according to the center of his vital interests. The center of one's vital interests is located in the country to which the private individual is primarily tied by bonds of family and business relations. If a private individual has no permanent residence in the territory of another State, his domicile shall be determined in accordance with the regular place of stay located in the other State. If none of the above considerations are suitable for determining the private individual's domicile, citizenship shall be taken into account.
- An income is of domestic origin, if it is earned on the basis of a legal relationship with an employer or commissioning party with domestic domicile, or, irrespective of the employer's domicile, generated by domestic activities or assets located in Hungary. An employer or commissioning party is regarded as

domiciled in Hungary, if its registered office or business premises is located in Hungary (in respect of the latter, representation offices as well), or is domiciled in Hungary as a private individual, whereby the registered office or business premises shall be defined pursuant to the provisions of the Act on the Rules of Taxation.

- An income is of foreign origin, if it is earned on the basis of a legal relationship with an employer or commissioning party of foreign domicile by activities performed abroad or generated by assets located abroad. In respect of the activities performed abroad the legal relationship shall be qualified in accordance with the law of the foreign State. Dividends, capital gains, and interest shall be considered foreign income, if the party paying such income is regarded as a party of foreign domicile in accordance with domestic laws.
- Tax year: the period for which the tax base is to be assessed; the same as the calendar year, with the exceptions specified in this Act.
- Tax liability: all duties prescribed in accordance with the provisions of this Act and the Act on the Rules of Taxation for private individuals earning income, and for parties paying such income and participating in the taxation process, with regard to reporting, submitting declarations, assessment of tax base and taxes, filing tax returns, paying tax advances and taxes, deducting taxes, maintaining records, issuing receipts, disclosure of data, and storage of documents.
- Wage: income earned on the basis of employment (not including taxable insurance premiums paid by the employer, severance pay received upon termination of employment), taxable social security benefits, taxable benefits received on the basis of the Act On Social Administration and Social Provisions (with the exception of pensions and other incomes taxed in the same manner), unemployment benefits paid on the basis of the Act On Job Assistance and Unemployment Benefits, unemployment benefits granted to entry-level job seekers, vocational and advanced training subsidies, and the remuneration of private individuals in reserve military service with the armed forces, and reimbursements for loss of income (employment disability income benefits), including settlement payments received from liability insurance.
- Employment income: income determined by the private individual, or the employer, in accordance with the provisions applicable to income from non-independent activities, from revenues paid and verified in connection with an employment relationship.
- APEH: the Tax and Financial Control Administration.
- Tax authority: the regionally competent organization of APEH.

## **GENERAL RULES PERTAINING TO INCOME AND TAX LIABILITY**

### **Income, Revenues, Expenses**

- Income is the entirety of all revenues acquired in any manner and form by a private individual during the tax year, or the portion of such income with the expenses recognized in this Act deducted, or a given proportion thereof as set forth in this Act.

- Revenues are valuable considerations acquired by a private individual from others under any legal title and in any form. Valuable consideration shall, in particular, include money, commercial warrants, things, securities, services received and any transferable or otherwise marketable right of value, debts canceled or assumed to the benefit of the private individual, and expenses paid on behalf of or for the benefit of the private individual.
- Only expenses directly connected to gainful activities, actually paid during the calendar year exclusively for the purpose of generating revenues and for pursuing the activities, which are duly substantiated shall qualify as expenses, unless this Act defines an item as an expense irrespective of the actual payment of the expenditure. In connection with any non-repayable aid received by a private individual on the basis of legal regulation or international agreement, deduction of expenses from such income shall be permitted only inasmuch as permitted by the said legal regulation or international agreement in connection with the appropriation of the support.

### **Commencement of Tax Liability**

- Tax liability shall commence on the day upon which the gainful activity begins, or upon the conclusion of the legal relationship resulting in income. Termination of the activity or the legal relationship shall not affect the taxability of income earned from the activities performed previously or under the previous legal relationship.
- Tax liability shall not be affected by the fact whether a private individual pursues his gainful activity with or without an official license, or in what form such income is obtained.
- Whether income earned abroad is transferred or brought to Hungary is immaterial in respect of tax liability.

## **REGULATIONS ON THE ASSESSMENT, DECLARATION AND PAYMENT OF TAX**

### **Self-Assessment**

- Private individuals shall assess and declare their taxable income, which is to include all income received during the tax year, and the amount of tax payable on this income, and they shall pay the tax.
- Pursuant to the provisions of Chapter VI, private individuals shall form a consolidated tax base from their income acquired during the tax year - except for the income on which tax shall be paid in accordance with the contents of Part Three - and shall pay the tax according to progressive tax brackets, based on such tax base.
- By way of derogation from Subsection (1), private individuals shall not be compelled to declare the following:
  - a) revenues that need not be declared as income;
  - b) revenues of agricultural smallholders for which they have filed a simplified declaration statement according to the relevant provisions;
  - c) proceeds from the transfer of an asset if it produces no income;

- d) proceeds from the sale of movable property item(s) if the annual amount thereof is less than HUF 200,000;
  - e) interest income;
  - f) income earned from securities lending arrangements, dividend income, capital gains income and income withdrawn from the business account if the combined total of such income is no more than HUF 50,000 for the entire tax year and the payer has deducted the tax;
  - g) the separately taxed individual income not mentioned in Paragraphs *c)-f)* (excluding income from real estate rental) on which the tax has been deducted by the payer;
  - h) income that is not taxable in the Republic of Hungary by virtue of international agreement or reciprocity (not including income that is exempt from tax in the Republic of Hungary by virtue of international agreement or reciprocity, but which is to be included in calculating the tax).
- A private individual must file a tax return for the tax year if
    - a) he has been a private entrepreneur in the tax year;
    - b) he was an agricultural smallholder during the tax year and his income from this activity exceeded the amount limit for tax exemption (Section 23), unless he has issued a simplified declaration statement in accordance with the provisions of this Act;
    - c) he has made a request in writing to the payer (employer) for the deduction of expenses when determining the tax advance for any revenues received during the tax year, not including a statement pertaining to expenses which may be claimed without substantiation (approved expenses);
    - d) he has selected flat-rate taxation in connection with private lodging services he has provided during the tax year;
    - e) he has any tax liability payable for the tax year as assessed on the basis of cost difference or tax advance difference according to the provisions on tax advance payments;
    - f) he is subject to repayment obligation for the tax year in connection with special allowances on permanent donations;
    - g) he is required to declare and pay tax that has been deducted in an increased amount due to a housing allowance;
    - h) he is obliged to declare and pay tax that has been deducted in an increased amount due to an insurance allowance;
    - i) he is obliged to declare and pay tax that has been deducted in an increased amount due to tax allowance on the amount tied up in his voluntary mutual health fund individual account;
    - j) he has any securities on record as of the first day of the tax year through an arrangement for the preferential exchange of shares in accordance with specific other legislation.

### **Employer's Statement of Account in Lieu of Tax Returns and Other Equivalent Statements**

On the basis of the private individual's statement, the employer shall assess the consolidated tax base and the tax thereon, pay such tax and refund excess tax in the event of overpayment. This statement shall be equivalent to a tax return.

## **Payment of Tax**

- Private individuals shall pay the tax on their income determined from the revenues received during the tax year - with the tax advance and tax paid on the year's revenues by the private individual, or that is paid (payable) by the employer or payer - in accordance with the provisions of the Act on the Rules of Taxation.
- If the amount of tax advance and tax paid on the year's revenues by the private individual, or that is paid (payable) by the employer or payer is in excess of the tax amount payable on the private individual's revenues for the tax year, the tax authority shall refund the difference in accordance with the provisions of the Act on the Rules of Taxation.
- If the tax advance was deducted by the payer, the tax authority may thereafter only demand such advance from the payer.
- If a payer has assessed and deducted the tax on certain incomes of the private individual which are to be taxed separately, then the payer so required to deduct taxes shall be responsible for assessing the income and the tax, as well as for deducting and paying the tax; with the exception of the case described in Subsection (3), the tax authority may not demand such tax from the private individual.
- In the event that the tax authority establishes tax arrears in respect of the tax determined by the employer, such tax arrears shall be paid by the private individual.
- In the event that the tax authority discovers undeclared taxable income, the amount of such income shall be added to the income of the year when the income was obtained.

## **PART TWO**

### **CONSOLIDATED TAX BASE AND THE TAX THEREON**

#### **CONSOLIDATED TAX BASE**

##### **Income Earned by Independent Activities**

All activities, as a result of which a private individual receives income and which are not included in the sphere of non-independent activities pursuant to this Act, shall be considered independent activities. Hence in particular, the activities of private entrepreneurs, small-scale agricultural producers, lessors and appointed auditors, as well as the ancillary services provided by private individual members of business associations on the basis of a separate contract, provided that, in respect of the latter, the expenses of the member incurred for the purpose of his revenues are not claimed by the company among its expenses, are considered to be independent activities.

##### **Income Earned by Non-Independent Activities**

Non-independent activities are the activities pursued in an employment relationship, activities carried out by members of Parliament and representatives of local governments, personal participation of private individual members of a business partnership if the remuneration received in return therefor is claimed as an expense of the business partnership, activities of officers elected on the basis of legal regulations (except for elected auditors),

activities of contributing family members, and non-independent work as defined by treaty or, in the absence of such, employment as defined under the law of the country in question.

**Other Income**

The item "other income" shall cover all receipts for which this Act contains no provisions to the contrary in terms of tax liability. Other income includes, in particular, non-taxable emoluments, the part of incomes received under titles that does not result in any non-taxable emoluments (for example, vocational training benefits, student wages, social worker's fees) that is in excess of the threshold limit of non-taxable emoluments; furthermore, the membership fees supplements refunded by a private pension fund from the member's individual account upon returning to the social security pension system and the sums paid by voluntary mutual pension funds to their members as retirement benefits which are not treated as pension (supplementary pension). Other income shall also include sums credited by voluntary mutual insurance funds to the individual account of a private individual, with the exception of

- a) payments made by the member to his own account;
- b) any sums credited from funds which are not required to be considered part of the private individual's income;
- c) yield of investments made from the safety reserve;
- d) any valuation difference.

**Determination of Consolidated Tax Base**

- The consolidated tax base includes all income earned by a private individual during the tax year by independent and non-independent activities, as well as other income.
- Income earned abroad, as described in Subsection (1), shall constitute a part of the consolidated tax base
  - a) in the absence of a treaty (or reciprocity), or
  - b) if the inclusion thereof is stipulated by treaty (or reciprocity).

**DETERMINATION OF THE TAX ON CONSOLIDATED TAX BASE**

**Tax Table**

Tax rates shall be as follows, if the amount of income is:

between 0 and 800,000 forints	18%
between 800,001 and 1,500,000 forints	144,000 forints + 26% of the part over 800,000 forints
over 1,500,001 forints	326,000 forints + 38% of the part over 1,500,000 forints



## **Calculated Tax and Tax on the Consolidated Tax Base**

The calculated tax is the tax determined on the consolidated tax base in accordance with the tax table.

### **Inclusion of Tax Paid Abroad**

- To the extent that any income on which the private individual has paid taxes abroad, which are compatible to income tax, and to which no stipulations in treaties or reciprocity agreements apply is also included in the consolidated tax base of the tax year, then the calculated tax shall be reduced by 90 per cent of the tax paid abroad, or by the tax calculated for this income by the average tax rate of the tax table, whichever is lower. The average tax rate of tax table shall be established by dividing the calculated tax by the consolidated tax base rounded off to two decimal places.
- Tax paid abroad shall be converted to HUF at the exchange rate quoted by the NBH and valid for the last day of the tax year. In the event that the income was established in a currency for which the NBH quotes no exchange rate, the foreign currency exchange rate quoted and published by the NBH in euros and valid for the last day of the tax year in which such income was acquired shall be applied for conversion into HUF. These provisions shall also apply to the conversion into forints of any tax amount that was paid abroad on income not included in the consolidated tax base and that can be set off against the income tax.

## **ITEMIZED DEDUCTIONS FROM THE CONSOLIDATED TAX BASE, DISPOSAL OVER TAX**

- Allowances on Social Security, Private Pension Fund and Voluntary Mutual Insurance Fund Payments
- Tuition Allowances
- Allowance for Adult Education Tuition and for Specific Education-related Expenses
- Allowances for Housing Purposes
- Allowances on Certain Activities
- Personal and Family Allowances
- Allowances on Charitable Donations
- Allowances on Insurance Contracts
- Allowances on Insurance Contracts

## ASSESSMENT, DECLARATION AND PAYMENT OF TAX ADVANCE

### Common Provisions Applicable to Payers and Employers

- The base for tax advance (*tax advance base*):
  - a) in the case of income from self-employment activities, the part of this income less the expenses deducted in the amount indicated in the private individual's statement (at least 50 per cent of the income), or 90 per cent in the absence of such statement;
  - b) in the case of income from activities other than self-employment, the income with any trade union membership fees deducted by the payer or employer according to the Act on Voluntary Membership in Workers' Organizations, or - if the payer or employer has no part in deducting the membership fee - any trade union membership fee paid by the private individual, and verified by certificate of the trade union, deducted from the income;
  - c) in the case of income (expense reimbursement) covering costs that can be claimed as expenses in accordance with this Act - above and beyond what is contained in Paragraphs a)-b) - the income with the expenses indicated in the private individual's statement deducted or, in the absence of such statement, with the expenses which may be claimed without substantiation (approved expenses) according to this Act taken into consideration, or in the absence of such statutory provision the entire amount of the income (90 per cent of the income in the case of expenses reimbursement that is treated as income from self-employment activities);
  - d) in the case of income paid out (provided) in connection with a foreign assignment (foreign service) - above and beyond what is contained in Paragraphs a)-c) - part of the income determined with the deductions made according to the provisions of this Act, or part of the income determined with expenses deducted in the amount indicated by the private individual who is entitled to claim the costs substantiated as directly and solely pertaining to the operation of a motor vehicle outside the domestic territory in accordance with the Government Decree on the Expenses Recognized in Connection with Foreign Assignment, if the private individual uses this accounting method;
  - e) in the case of incomes not mentioned in Paragraphs a)-d), the entire amount.

### Tax-Related Obligations of Payers

The amount of tax advance on income paid out (provided) by a payer shall be calculated by multiplying the tax advance base determined according to the income with the highest tax rate indicated in the tax table (percentage-base tax).

### Tax-Related Obligations of Employers, Payers of Wages and Business Associations (Civil Associations)

The employer or payer of wages shall calculate the tax advance on regular monthly income under contract of employment by multiplying the tax advance base determined on the basis of a monthly income with twelve, and dividing the result by twelve to arrive at the amount of tax according to the tax table. Regular employment income shall mean all monthly income from activities other than self-employment paid (provided) to the private

individual in connection with or arising out of his employment on the basis of legal regulation or contract in effect at the time of payment.

### **Tax-Related Obligations of Private Individuals**

Private individuals shall establish the tax advance on their income quarterly, by the 12th day of month following the quarter, if they have any income during the quarter that is to be included in the consolidated tax base. This obligation shall not apply to the private individual if the obligation to determine the tax advance falls on his employer.

## **PART THREE**

### **CERTAIN INCOMES WHICH ARE TAXED SEPARATELY**

#### **BUSINESS INCOME TAX OF PRIVATE ENTREPRENEURS, FLAT-RATE TAXATION AND ITEMIZED FLAT-RATE TAXATION**

##### **Taxation of Private Entrepreneurs**

Private entrepreneurs, even if registered as a company of sole proprietorship, shall pay business income tax on the entrepreneurial tax base established in accordance with the provisions of Section 49/B, and a tax, based on the entrepreneurial dividend base, as prescribed in this Act (hereinafter referred to as 'private entrepreneur paying tax on entrepreneurial income'), or may select flat-rate taxation under the conditions defined in this Act and in the Act on the Rules of Taxation.

##### **Business Income Tax of Private Entrepreneurs**

A private entrepreneur using the entrepreneurial income based taxation method shall determine his entrepreneurial revenues in accordance with the provisions of this Chapter and of Schedules Nos. 4 and 10, and his entrepreneurial income from the entrepreneurial revenues, not to exceed such revenues and with due consideration of the provisions of Subsections (2)-(7), by deducting his entrepreneurial expenses. Entrepreneurial withdrawals and expenses incurred in connection with entrepreneurial activities may be claimed as entrepreneurial expenses pursuant to the provisions of Schedules Nos. 4 and 11.

##### **Entrepreneurial Dividend Base**

- The entrepreneurial dividend base shall be established from the taxed entrepreneurial income, in observation of the transitional provisions as well.
- The following shall be added to taxed entrepreneurial income:
  - a) in respect of the transfer of a tangible asset without consideration, unless provided by the private entrepreneur as a payment in kind, from the year when deductions from the taxed entrepreneurial income were implemented in connection with the acquisition of said tangible asset,

- aa) if the tangible asset is transferred within one year, 100 per cent,
  - ab) if the tangible asset is transferred after one year but within two years, 66 per cent,
  - ac) if the tangible asset is transferred after two years but within three years, 33 per cent,
  - ad) if the tangible asset is transferred after three years, zero per cent
- The tax on the income received from the entrepreneurial dividend base shall be 20 per cent for the part that is below 30 per cent of the withdrawal shown under expenses, and shall be 35 per cent on the remaining part of the entrepreneurial dividend base. Private individuals shall assess and declare this tax in their tax returns and shall pay it by the deadline prescribed for filing their tax returns.

### **Flat-Rate Taxation of Private Entrepreneurs**

- Instead of taxation on the basis of entrepreneurial income, the private entrepreneur may choose flat-rate taxation for the entire tax year according to the provisions of the Taxation Act, if
  - a) his entrepreneurial revenues did not exceed HUF 4 million in the tax year preceding the commencement of flat-rate taxation, and
  - b) he is not employed, and
  - c) he is tax exempt in accordance with the Value Added Tax Act - and/or if he is engaged in tax exempt activities - provided the private entrepreneur's revenue does not exceed HUF 4 million during the tax year.

## **TRANSFER OF ASSETS**

### **Income from the Transfer of Movable Property**

- Income received from the transfer of movable property shall be assessed in such a manner that the following substantiated expenses charged to the transferring private individual are subtracted from the revenues (with the exception of those already claimed as expenses in respect of his revenues received from any of his activities):
  - a) the amount used for the acquisition, and other relevant expenses;
  - b) value-increasing investments;
  - c) expenses incurred in connection with the transfer.
- The amount of acquisition shall be the value specified in the contract, invoice, receipt, delivery certificate, etc. on the purchase, or in the case of movable property received in exchange, the value indicated in the contract of exchange. In respect of movable property imported from abroad, the amount applied as the basis for customs duty, or if no customs duty was imposed the invoice amount as converted to HUF, shall be considered the amount of acquisition. In the case of inheritance, the amount of acquisition of the movable property shall be the value established in the probate proceedings, while if donated as a gift, the value based on which the duties were imposed, or if no such value is available, the customary market value of the movable property at the time of acquisition.

- If the amount of acquisition cannot be determined, 25 per cent of the revenues shall be considered as income.
- The rate of tax on the income received from the transfer of movable property shall be 20 per cent. The tax shall be determined in the tax return of private individuals, and shall be paid by the same deadline prescribed for filing the tax return.
- The portion of the tax on the combined income received during the year from the transfer of movable property, which is not in excess of 40,000 HUF, shall not be paid.

### **Income from the Transfer of Real Estate and Incorporeal Rights in Property**

- From the income received from the transfer of real estate and/or incorporeal rights in property with the exception of those already claimed as costs in respect of his revenues from any of his activities:
  - a) the cost of acquisition and other expenses related thereunto;
  - b) value-increasing investments;
  - c) expenditures incurred in connection with the transfer, including any sums paid as substantiated based on a commitment to the state in connection with the property in question.
- The amount of acquisition shall be the value specified in the contract of transfer (document, court or official decision), or the value specified in the exchange contract in respect of real property or incorporeal rights in property received in exchange, or if no such value is available, the value serving as basis for establishing the relevant duties. In the case of inheritance, or if the transferred real property or incorporeal right in property was given to a private individual as a gift, the amount serving as the basis for establishing the relevant duties shall constitute the amount of acquisition. In respect of arable land and forest land acquired by exercising the purchase option governed by indemnity laws, the amount indicated as the purchase price shall be regarded as the amount of acquisition, if the income is not required to be established in accordance with the law. In the case of a private individual purchasing a residential unit from a local government, the actual purchase price indicated in the contract shall be regarded as the amount of acquisition.
- If the amount of acquisition cannot be established according to the law, 75 per cent of the receipts shall be applied as income.
- The income from the transfer of real property, if such transfer takes place in the year of acquisition or within the following five years, shall be the amount calculated according to the law. Subsequently, the income shall be established by deducting, if the transfer is executed, taking the year of acquisition as the first year,
  - a) in the sixth year, 10 per cent of the calculated amount,
  - b) in the seventh year, 20 per cent of the calculated amount,
  - c) in the eighth year, 30 per cent of the calculated amount,
  - d) in the ninth year, 40 per cent of the calculated amount,
  - e) in the tenth year, 50 per cent of the calculated amount,
  - f) in the eleventh year, 60 per cent of the calculated amount,
  - g) in the twelfth year, 70 per cent of the calculated amount,
  - h) in the thirteenth year, 80 per cent of the calculated amount,

- i) in the fourteenth year, 90 per cent of the calculated amount,
- j) in the fifteenth year, 100 per cent of the calculated amount,  
from the calculated amount.

- The rate of tax on the income from the transfer of real property or incorporeal right in property shall be 20 per cent. The tax shall be determined in the tax return of private individuals, and shall be paid by the same deadline prescribed. The tax on the income from the transfer of movable property, real estate or incorporeal rights in property as part of alimony, life-annuity or inheritance contracts, if no tax-exemption applies, shall be 20 per cent, otherwise according to the law.

### **Income Received on the Basis of Alimony, Life-Annuity or Inheritance Contracts**

The tax on the income from the transfer of movable property, real estate or incorporeal rights in property as part of alimony, life-annuity or inheritance contracts, if no tax-exemption applies, shall be 20 per cent, otherwise the provisions of Sections 58-62 shall be applied with the exceptions described in Subsections (2)-(5).

## **INCOME FROM CAPITAL INVESTMENTS**

### **Interest Income**

For the purposes of this Act, the following shall qualify as interest

- interest on savings deposits, savings notes and foreign exchange deposits;
- the yield from debt-securities offered and traded publicly, if designated as interest by law,
- the yield from publicly offered investment certificates
- The entirety of interest revenues shall be regarded as income, on which the rate of tax is 0 per cent.
- income received by virtue of non-forfeiture provision of an insurance contract
- capital value gains on publicly offered and traded capital value increasing debt securities (capitalizing yield or parts of thereof);

### **Income from Securities Lending**

The rate of tax on the income produced by securities lending operations shall be 20 per cent.

### **Dividend Income**

- All revenues of private individuals received as dividends shall be considered income. For the purposes of this Act the following shall be construed dividends:
  - a) a private individual member's (shareholder, founder) or owner's share from the taxed profit of a business association, including interest on interest-bearing shares from the taxed profit;
  - b) income specified as dividends by the laws of other countries;
- Tax on the dividend shall be assessed as follows:

- a) the fraction of the business partnership's equity capital, less the valuation reserve, which applies to the private individual receiving such dividends shall be calculated in the percentage of said private individual's holdings (stocks, business share, share notes, etc.);
- b) the amount shall be multiplied by 0.3;
- c) the tax on the difference between the amount paid as dividend to the private individual shall be 20 per cent, while the tax on the remaining portion shall be 35 per cent.

For the purposes of this provision, the equity capital shown in the balance sheet of the accounting report filed for the period in respect of which the profit distribution took place, shall constitute the business partnership's equity capital.

- On the dividend, the payer shall assess the tax at the time of payment, and he shall pay and declare it in accordance with the provisions of the Act on the Rules of Taxation.

### **Capital Gain Income**

- "Income from capital gains realized" shall mean the proceeds received upon the transfer of securities (not including lending arrangements) less the purchase price of the securities and any incidental costs associated with it. Any portion of said profit that is to be treated as part of some other type of income in accordance with this Act shall not be considered as a capital gain, nor shall the difference that is treated as interest income under this Act.
- The rate of tax on capital gains income shall be 20 per cent.

## **IN-KIND BENEFITS AND OTHER ALLOWANCES**

### **In-Kind Benefits**

#### **'Benefit in kind' shall mean**

- a) entertainment and gifts a payer has provided to the private individual for promotional purposes;
- b) taxable income provided by a payer in the form of gratuitous or preferential goods or services to several private individuals at the same time if, due to the circumstances under which they are provided, the payer - in spite of acting in good faith - is unable to determine the value provided to any one private individual concerned; this provision shall, in particular, apply to food and beverages provided in events staged by the payer to which several private individuals are invited, services provided in relation to events (e.g. travel, accommodations, programs), if not treated as entertainment; in the case that the payer acts in bad faith, a penalty shall be imposed in the amount representing 50 per cent of the value of the in-kind benefit provided on the grounds of failure to comply with the obligation of tax assessment (tax advance assessment);
- c) taxable income provided to the private individual by a payer in the form of gratuitous or preferential goods or services on the basis of an act or other legal regulation enacted under authorization of an act;

*d)* taxable income provided by the employer in the form of gratuitous or preferential goods or services that is available to all employees in the same manner and under the same conditions, provided that the goods and services are in fact available to and can be obtained by all employees; this provision shall also apply where the employer provides taxable incomes under the above-specified to the close relatives of deceased employees, to vocational students, or students undergoing compulsory apprentice training, furthermore, to private individual retirees as their former employer (or its successor); the cash substitute instrument defined in the Act on Value Added Tax shall be treated as in-kind benefits solely under the special provisions of this Act, also if the circumstances under which it is provided otherwise fall under the scope of the above provisions;

*e)* taxable income provided by the employer in the form of gratuitous or preferential goods or services to several employees in the same manner and under the same conditions as governed under the collective agreement, if the persons eligible for such benefits are not designated by name in the collective agreement, rather it defines eligibility according to jobs or positions, length of employment, age or some other common criteria; for the purposes of this provision close relatives of deceased employees, vocational students, students undergoing compulsory apprentice training, furthermore, private individual retirees - if receiving services from their former employer (or its successor) - shall be treated as employees; the cash substitute instrument defined in the Act on Value Added Tax shall be treated as in-kind benefits solely under the special provisions of this Act, also if the circumstances under which it is provided otherwise fall under the scope of the above provisions;

*f)* taxable income provided to the private individual by the payer in the form of meal allowance or other services in connection with official and business trips;

*g)* taxable income provided by the employer in the form of rebate from the price of a vacation voucher issued by the Hungarian National Recreation Foundation to the name of the private individual;

*h)* taxable income provided to the private individual by the employer in the form of gratuitous or complimentary services in connection with sports activities (including a certificate for such services);

*i)* taxable income provided to the private individual by the employer in the form of gratuitous or preferential passenger transportation services;

*j)* taxable income provided by the payer in the form of gratuitous or preferential goods or services to several private individuals for business promotion (advertisement) purposes, other than those falling within the scope of the provisions on income from winnings, and other than the awards and prizes of games and contests;

*k)* insurance premium paid under contract by the payer to the benefit of several private individual, naming them as the beneficiaries, if the persons eligible for such benefits are designated according to jobs or positions, length of employment, age or some other common criteria, other than individually;



l) income generated through the use of the payer's car for private purposes;

m) benefits in kind declared tax-exempt under the special provisions of this Act;

natural and cultured pearl, precious stones, semi-precious stones, precious metals, metals clad with precious metals and the goods made of these, imitation jewelry, coins - the previous provisions notwithstanding - shall not be treated as in-kind benefits, if the circumstances under which they were provided suggest any violation of the principle of proper practice.

### **Income from Interest Rate Discount**

- Income from interest rate discounts means the part of interest calculated by the central bank base rate plus 5 percentage points - or the standard market rate if the payer is able to prove that the standard market rate is lower - on the amount the private individual owes to the payer that is in excess of the interest that is otherwise due to the payer (income from the interest rate discount). The income from the interest rate discount shall be calculated based on the amount the private individual owes to the payer, or if the debt is contrived from a securities lending arrangement, on the fair market value of the securities in effect on the day of contracting.
- The tax rate on income from interest rate discounts shall be 44 per cent of the interest rate discount.

## **MISCELLANEOUS INCOME**

### **Disbursements in Small Amounts and Lump Sum Redemption of Annuities**

- In respect of any payment of 15,000 HUF or less received on the basis of a contract for independent activities, the private individual shall have the following options:
  - a) to have the payer assess, deduct and pay the tax on the income, or
  - b) issue a written statement as to paying the tax on such income as part of his consolidated tax base.
- In the case the revenue shall be regarded as income in its entirety, and the rate of tax shall be 38 per cent.

### **Income from the Rental of Real Property**

- A private individual's revenues from the rental of arable land (including land allotments as well) and revenues from the rental of other real property shall be regarded as income in its entirety, on which the rate of tax shall be 20 per cent.
- Income from the leasing of arable land shall be exempt from tax if the term of the lease, as stipulated in the relevant contract (agreement), is five years or more (minimum duration for tax exemption).

**Income from Winnings**

- In respect of cash winnings the amount of tax shall be 20 per cent which shall be deducted and paid by the payer in one sum from the total amount of winnings to be divided among private individuals.
- In respect of winnings paid not in cash but in some other pecuniary value, the payer shall pay 25 per cent as tax based on the customary market value of such winnings calculated without value added tax.

**Income from Privatization Lease**

The total amount of revenues from an ownership share obtained on the basis of a privatization lease contract defined in the Act on the Sale of State-Owned Entrepreneurial Assets shall be considered income, on which the rate of tax shall be 20 per cent.