

TaxAlert

2009

Expected tax law amendments for years 2009-2010

The purpose of this alert is to inform our clients about the main elements of recently published tax law amendments regarding years 2009-2010.

The primary aim of the tax package recently announced by the prime minister is to defend workplaces by means of decreasing taxes and contributions levied on work, and in long the term to stimulate the economy, and to develop the competitiveness of Hungary. The amendments mean approximately HUF 700-800 billion of tax realignment in years 2009-2010, in two steps. These amendments decrease the public dues levied on employment, and the capacity for these reductions will be provided by increasing taxes levied on consumption, and the elimination of certain exemptions and allowances.

Personal income tax and surtax to be paid by private persons

According to the intention of the Government the present system of income ranges and tax rates will gradually change. We summarize the present conception of the Government regarding the amendment of tax rates and income ranges in the following table:

	Income	Tax rate
At present	Below 1,700,000	18%
	Above 1,700,000	36%
1 July, 2009	Below 2,200,000	19%
	Above 2,200,000	38%
1 January, 2010	Below 3,000,000	19%
	Above 3,000,000	38%

In order to compensate for these proposed changes, the tax credit would increase.

Next year the tax allowances are expected to decrease to a significant extent, except the family allowance for families with three or more children. As of 2010, the tax exemption of in-kind benefits provided by employers and the field of other incomes exempt from tax will be narrowed significantly.

In addition, the social allowances – e.g.: family allowance, maternity allowance etc. – will constitute a part of the tax base, as non-taxable emoluments. Although these forms of allowances theoretically will not be taxed, the ones, for whom the total income partly gets to the top income range of personal income tax due to this measurement, or those whose income has already been taxed in the top income range, will be brought into a disadvantageous situation by this amendment.

As planned, as of 1 July 2009, the 4% surtax, which should be paid now by private persons on their income exceeding 7.466 million, will be eliminated.

Contributions to be paid by employers

According to the announcements published so far, as of the middle of the year, the contributions to be paid by employers amounting to 32% at present (29% social insurance contribution + 3% contribution to the Unemployment Fund paid by employers) would be decreased to 27%. In the frame of this, the health insurance contribution would decrease by 3%, and the contribution to the Unemployment Fund paid by employers would decrease by 2%. As of July 2009, the contribution decrease could be utilized for salaries below twice of the minimum wage, while above this amount the 32% rate would remain valid, but as of 2010, the rate of contributions paid by employers would decrease to 27% uniformly, without income limits.

Corporate income tax and surtax to be paid by enterprises

Based on the tax package, the surtax related to the income of enterprises would be abolished as of 1 January, 2010, but the corporate income tax would be increased from 16% to 19%. At the same time, the tax base would be broadened, which would typically mean the abolishment of tax allowances. But the allowances related to investments would not be modified, so the opportunity of creating development reserve, the investment allowance for SME's, and the accelerated depreciation rates would remain in effect.

Value added tax

The general rate of value added tax can be expected to be increased by 3% to 23% already from the middle of the year.

Excise duty

According to the information we have received, the excise duty rate is planned to be increased in all of the three categories by 3-7% as of 1 July, 2009. At the same time, if the world market prices increase, an automatic compensation mechanism can come into effect in the case of fuels.

Contribution to the Rehabilitation Fund

As of 2010, the rate of contribution to the Rehabilitation Fund is planned to be increased to three times the present rate.

Real estate tax

According to the present expectations, the value based real estate tax announced several times is likely to be introduced between 2010 and 2013, which would gradually replace real estate tax, which can currently be imposed by local municipalities.

The information published in this alert reflects the plans of the Government, which may be significantly amended during the law-making process. We will keep you informed of any developments when day happen.

Should you have any questions regarding the above, please do not hesitate to contact Enikő Vadon (tel: 887-7359, eniko.vadon@kpmg.hu) or Mihály Gerhát (tel: 887-7180, mihaly.gerhat@kpmg.hu) at the tax department of KPMG Advisory Ltd. or your regular tax advisor.

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