



## Hungary

### Introduction

An individual's Hungarian income tax liability is determined by residence status and by the source of the income. The taxes are levied using a flat rate. Residents are liable for tax on worldwide income; nonresidents are taxed on Hungarian-sourced income. Tax credits are available on long-term savings (such as pre-pension investments, long-term savings accounts, and payments to voluntary mutual funds).

No special expatriate tax regime exists.

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### Key messages

Extended business travelers are likely to be taxed on employment income relating to their Hungarian work, but treaty rules are examined closely.

## Income tax

### Liability for income tax

An individual's tax liability in Hungary depends on residence status. If an individual is resident, worldwide income must be declared in the annual tax return.

Nonresident individuals are taxed on their Hungarian-sourced income. Residence rules are determined very similarly to income tax treaty rules.

Most categories of income are aggregated, but certain categories are taxed separately (such as dividends and capital gains).

Extended business travelers are likely to be considered resident if they spend more than 183 days in Hungary. If they spend less than six months, then the treaty rules are used to determine tax liability.

Employment income is derived from Hungarian sources if it is paid by a Hungarian entity, the work is performed for a Hungarian entity, or the Hungarian entity bears the costs of the employment.

### Tax trigger points

There is no minimum number of days when determining tax liability. If an individual is nonresident in Hungary but the employment costs are borne by a Hungarian entity (i.e., the Hungarian entity is the economic employer), then even one day of work is taxable in Hungary.

### Types of taxable income

For extended business travelers who are resident in Hungary, worldwide income is subject to tax in Hungary, but foreign-source income that has been subject to tax in a foreign country is exempted. If they are nonresident in Hungary, the types of income that are generally taxed are employment income, Hungarian-sourced income, and gains from Hungarian assets (such as real estate). Fringe benefits provided by a Hungarian entity are taxed at the entity level unless they are subject to tax as income from employment.

### Tax rates

Income is taxed at a flat rate. On annual gross salary, 16 percent tax is payable. As of January 1, 2010, the Hungarian State has introduced the so-called "super gross" system whereby aggregated income must be increased by a 27 percent correctional item, and the taxes are calculated on this increased taxable base.

## Social security

### Liability for social security

Employers pay a 27 percent social security contribution (24 percent pension, 2 percent health insurance contribution, and 1 percent labor market contribution) on gross salary. Employers also pay a 1.5 percent contribution to the Training Fund. All contributions are uncapped.

Employees pay a 10 percent pension contribution (capped at 7,665,000 Hungarian forints (HUF) annual gross salary), 6 percent health insurance contribution, and 1.5 percent contribution to the unemployment fund. These latter contributions are uncapped.

Social security is payable by individuals who are insured in their home country. If an extended business traveler is insured in an EU member country or in a country with which Hungary has a totalization agreement, those rules apply.

## Compliance obligations

### Employee compliance obligations

Tax returns are due by May 20 in the year following the tax year. No extension is available. In case of late filing, an excuse letter can be attached to avoid penalty on late filing.

If there is no local Hungarian employer but the individual receives the remuneration from a foreign entity, the individual is obliged to pay tax advances on a quarterly basis. This generally applies to extended business travelers.

### Employer reporting and withholding requirements

If the employer pays any remuneration to an individual, taxes must be withheld and paid to the tax authority. Withholdings from employment income must be reported to the tax authority.

If there is no local Hungarian employer but the individual receives the remuneration from a foreign entity, then the individual is obliged to pay tax advances on a quarterly basis.

## Other

### Work permit/visa requirements

Work permits and visas are required only for third-country nationals (i.e., non-EU/EEA member country citizens). Visas and work permits must be obtained before entering Hungary. Work residence permits must be obtained after arrival.

EU/EEA citizens must obtain registration cards, which are valid for five years.

### Double taxation treaties

Hungary has an extended double tax treaty network with over 60 countries.

### Permanent establishment implications

A permanent establishment could be created as a result of extended business travel, but this would be dependent on the type of services performed and the level of authority the employee has.

### Indirect taxes

Value-added tax (VAT) applies at 25 percent on most of the goods and services. Certain goods and services have a preferential lower rate. Excise duty tax is levied on several goods, such as tobacco and fuel.

### **Transfer pricing**

Hungary has a transfer pricing regime. A transfer pricing implication could arise to the extent that the employee is being paid by an entity in one jurisdiction but performing services for the benefit of the entity in Hungary, and certain costs in relation to the work are charged to Hungary.

### **Local data privacy requirements**

Hungary has data privacy laws.

### **Exchange control**

Hungary does not restrict the flow of any currency into or out of the country. Certain reporting obligations are imposed, however, to control tax evasion and money laundering.

Legislation requires financial institutions and other cash dealers to give notification of cash transactions over HUF3,600,000; suspicious cash transactions; and certain international telegraphic or other electronic funds transfers. All currency transfers made by any person into or out of Hungary of HUF3,600,000 or more in value must be reported.

In the case of cash transactions over EUR1,000, the person must be identified.

### **Nondeductible costs for assignees**

No costs are deductible from employment income.

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