19/2017
11 May 2017

wts TAX LEGAL CONSULTING

wts klient newsletter

WTS Klient.
The Bridge.

The role of special taxes in the Hungarian tax system

The special taxes introduced in Hungary in recent years or concerns about the introduction of other special taxes have a negative impact on investor sentiment. » page 1

Health insurance status checks

In the course of health insurance status checks, the IT system at the National Institute of Health Insurance Fund Management reveals what we are entitled to. » page 3

Dear Readers,

When online, there's no time for beating around the bush. People expect a reply the same day to an email sent at 8pm, and it's better if we react immediately to impulses on social media. With this in mind, we are making a change to the publication time of our newsletter that has appeared weekly for the last few months. Instead of Fridays at midday, the **WTS Klient Newsletter** will now be on your virtual desk at 2pm **on Thursdays**.
Meanwhile, legislators in Hungary have not taken a rest either. It is now customary that the draft of next year's budget containing amendments to tax laws is submitted to Parliament before the tax returns for the previous year are completed. While we are still focusing on the tax rules for 2016, we have put together a brief article on the tax amendments proposed for 2018, which you can find at the following link: wtsklient.hu/en/2017/05/09/tax-amendments-2018/
I trust you will find the time to read the articles, which contain the latest information and are prepared with the usual care, and I hope you enjoy our newsletters.

Zoltán Lambert
managing partner

The role of special taxes in the Hungarian tax system

Hungary's 2017 budget contained tax and levy revenues on the following three grounds (not including social security revenues):

	HUF million	EUR million (approx.)
1. Payments to budget by companies	1,293,000	4,158
2. Consumption taxes	4,891,306	15,728
3. Payments to budget by general public	2,000,100	6,431
Total:	**8,184,406**	**26,317**

Author: **Zoltán Lambert**
zoltan.lambert@wtsklient.hu

Special tax on financial companies, financial transaction duty, telecommunication tax, public utilities' tax, energy providers' tax, insurance tax, accident tax, public health product tax, advertising tax – these are just some of the special taxes introduced in the past few years. It's difficult even to remember the names of the many new taxes. We could rightly ask **how important** these taxes are in terms of the revenue they provide for the Hungarian **budget**, and whether their impact distorting the profitability of a given industry **does not cause** a greater **competitive disadvantage** for Hungary than the beneficial effect of the resultant revenues in balancing the budget.

As shown in the above table, the four largest items (corporate tax, VAT, excise tax and personal income tax) account for HUF 7,104 billion (approx. EUR 23 billion) or almost 87% of total tax receipts. By contrast, the **six largest special sector taxes** (special tax on financial organisations, income tax on energy providers, telecommunication tax, public utilities' tax, insurance tax, gaming tax) generate revenue of only HUF 291 billion (approx. EUR 1 billion), or **3.6% of tax receipts for the budget**.

Of course, I am not suggesting this as a tax amendment proposal, but looking at the personal income tax revenue figure of HUF 1,793 billion (approx. EUR 6 billion) we can conclude that raising the rate of personal income tax from 15% to 18% would mean all the special sector taxes could be abolished. The same applies for a one percentage point increase in the VAT rate, were it not for the fact that Hungary already leads the way in Europe in terms of its VAT rate. These examples simply prove that the sector special taxes are not significant from the perspective of budget revenues.

What is the damage caused by special taxes in the industries concerned?

If we add the special tax to the corporate tax paid by companies operating in sectors that are subject to a special tax, then in most cases they face an effective tax burden in excess of 50%, but **in some cases it can be more than 80%**. Alongside a tax burden of this size there is almost no point in conducting any business activity at all, while the only thing really keeping these investors in Hungary is that under such taxation conditions they would only recover a fraction of their invested capital were they to sell up and leave. And waiting for the appearance of new market players in industries subject to a special tax is most certainly a fruitless endeavour.

Unfortunately, the negative impact of special taxes is significant from another perspective as well: they adversely affect other taxes too.

Let us take the case of telecommunication tax, generating HUF 54 billion (approx. EUR 173 million) in revenue for the budget each year:

Our assumption is that the telecommunication tax creates an extra expense of around HUF 10 billion (approx. EUR 32 million) for one of the telecommunication companies operating in Hungary. The company does not charge this tax to its customers, for the simple reason that it would no longer be competitive on the market.

Since the owners do not want to inject any additional capital, the company has to fund this extra expense from its own cash flow. For this reason, the company decides to reduce its budget for the planned transmission line modernisation by HUF 7 billion (approx. EUR 23 million). It saves HUF 900 million (approx. EUR 3 million) in corporate tax (9%), and HUF 2.1 billion (approx. EUR 7 million) in other ways.

The supplier of this company that would have built these transmission lines hence expects a HUF 7 billion (approx. EUR 23 million) reduction in sales revenues. They would have earned a profit of 12.5% on the business, paying 9% corporate tax (approx. HUF 80 million – EUR 260,000) and roughly 10% local business tax (HUF 90 million – approx. EUR 290,000). Furthermore, this company does not employ the people who would have carried out the work. These employees would have generated a staff cost of HUF 2 billion (approx. EUR 6 million) for the company each year: almost half of this cost (HUF 900 million – approx. EUR 3 million) is personal income tax, employee contributions and employer social security contributions, which would have boosted budget revenues in Hungary.

The cable manufacturer that would have supplied the supplier company with cables worth HUF 4 billion (approx. EUR 13 million) also suffers a reduction in sales revenue.

I will spare you the "joy" of continuing down this chain reaction. While it is likely that the missed revenue from taxes and other levies will be lower than the HUF 10 billion (approx. EUR 32 million) earned from the telecommunications tax, the non-payment of these taxes and levies clearly means that the budget will only have a fraction of the much hoped-for extra income at its disposal. Moreover, we do not know exactly where these revenues are missing. All we see is that the economic growth could be faster.

Retail is currently not subject to a special tax because its reintroduction was dropped a few weeks ago by the ministry, but **the introduction of special taxes or fears that this may happen is not conducive to positive investor sentiment**. Potential investors may well opt to invest in another region because of the prevailing uncertainty.

❖ ❖ ❖

wts TAX LEGAL CONSULTING

"Companies would be obliged to report their foreign bank accounts to the tax authority."

Béla Kovács, WTS Klient Hungary senior manager

Source: inforadio.hu

Turn on your radio!

On 2 May the government submitted its spring tax amendments for 2018 to Parliament. Béla Kovács, senior manager at WTS Klient Hungary, will be speaking about the planned changes on InfoRadio in the evening of 11 May. "These amendments primarily cover administrative measures and moderate tax relief, there are few cardinal changes here" – says the expert.
Listen to the discussion on the radio, or click on this link.
Please note that the conversation is available only in Hungarian.

Health insurance status checks – the lights reveal all

Health insurance status checks

- → valid social security number, status in order
- → valid social security number, status unresolved
- → insured abroad, social security number temporarily invalid
- → invalid social security number, healthcare service must be paid for
- → valid social security number, limited entitlement to health-care

Author: **Marianna Fodor**
marianna.fodor@wtsklient.hu

In Hungary, healthcare providers check the validity of social security numbers before treating patients. This online check reveals whether the patient is included in the list of those entitled to treatment, as kept by the health insurer. The system can show "green", "red", "blue", "brown" or "yellow" lights during the online check.

In the course of health insurance status checks, the feedback from the IT system at the National Institute of Health Insurance Fund Management can be as follows:

Green light: the social security number is valid, the legal status of the patient is in order and they are entitled to healthcare. This can be because they are insured and pay the 4 percent in-kind health insurance contribution, or because they pay the monthly health service contribution of HUF 7,110 (approx. EUR 23). In this case the patient gets a green light, and so the healthcare provider must treat them as part of the social security system.

Red light: the social security number is valid, and although the legal status of the patient is unresolved, the healthcare provider may not refuse to provide care and may not make the patient pay for the costs of the care. The healthcare provider must notify the patient that their legal status is unresolved.

Blue light: the patient is insured abroad, so the social security number is temporarily invalid. The patient has notified the health insurer that they have social security abroad. In this instance, the care cannot be claimed with a social security card, the patient may only receive medical care in Hungary with an EU card issued by the foreign insurer or with an equivalent form.

Brown light: health insurance status checks revealing this light show the social security number is invalid for some other reason. In such cases, the healthcare service may only be used in Hungary if the patient pays. This happens for example if the patient lives in a different country and has discontinued their Hungarian address, so their social security number has been invalidated.

Yellow light: the social security number is valid, but the patient only has limited entitlement to healthcare services for 24 months based on an agreement with the health insurer. The agreed unlimited entitlement to healthcare services – with the exception of emergency treatment – may be provided from the first day of the 24^{th} month after the agreement is concluded, unless the prescribed contributions were paid retrospectively for 24 months when the agreement was concluded.

If the health insurance status checks do not reveal a "green" or a "yellow" light, the healthcare providers inform the patient about this. Problems with the validity of social security numbers can be resolved electronically through the government portal, or in person at the government offices for the county capitals (in the case of Pest county and Budapest, the government office in District 13 is the place to go).

After registering, the health insurance body sends notification about the result of the procedure to resolve the legal status.

Should you have any questions regarding the above or any other professional issues, please do not hesitate to get in touch with your WTS advisor or use any of the contact details below.

Services of the WTS Klient Hungary:

- Tax consulting
- Financial advisory
- Legal consulting
- Accounting
- Payroll

WTS Klient Hungary
1143 Budapest • Stefánia út 101-103. • Hungary
Telephone: +36 1 887 3700 • Fax: +36 1 887 3799
info@wtsklient.hu • www.wtsklient.hu