MINISTRY
FOR NATIONAL ECONOMY

UPDATE

on

Changes in Personal Income Tax

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The changes in the flat-rate personal income tax in 2012

The government has decided in summer 2010 after it had reviewed the system of domestic burden sharing, learned the opinions of stakeholders of the economy as well as surveyed the international experiences and trends in taxation to radically transform the system of personal income taxes and gradually implement the flat-rate personal income tax in Hungary. In regard to the aforementioned transformation several objectives have been identified which included the simplification of the system of personal income taxation, the creation of balanced and proportionate social burden sharing, the reduction of tax burdens and the increase of the number of taxpayers.

On 21 November 2011, the National Assembly adopted the amendment proposal[1] submitted by the Ministry for National Economy and aimed at certain tax regulations which focused on fine-tuning the proportionate flat-rate personal income tax system and reducing the number of distorting elements. To this end, from 1 January 2012 the following amendments in regard to the flat-rate personal income tax entered into force:

- **Phasing out tax credits and super grossing**: parallel to the elimination of tax credits, in 2012 super grossing for gross monthly incomes below 202 000 HUF (2 424 000 HUF/year) is eliminated. For incomes above this threshold the 27% tax base adjustment shall still be temporarily applied – in order to support necessary wage hikes. In order to

[1] Act CLVI of 2011 on the amendment of certain taxes and related other regulations

amend the net wage decrease due to the changes in the tax system, the government has established a compensation mechanism (compensation by employers) which motivates employers to hike wages so that the net worth of salaries can be preserved. As tax break the employer receives from the central administration the costs of a wage increase necessary to maintain the value of net wages above a hike of 5 percent. The compensation is covered by the welfare contribution tax of 27 percent which has replaced social security contributions paid by the employer.

- **Fine-tuning of advance tax regulations**: in order to simplify the personal income tax system and support implementation, the regulation on advance taxes has been made more precise and thus the payment of tax liabilities became more constant and even.

- **Simplifying rules which regulate the exchange of a foreign currency into forint gained from the interim dividends of foreign shares**: the amendment which allows of calculating and deducting tax on dividends (interim dividends) of foreign shares deposited at credit institutions in a foreign currency cuts red tape costs for taxpayers.

- **Making regulation on family tax benefits less ambiguous**

- **Levying higher taxes on exorbitant incomes from property deals:** In order to make work that adds value and non-speculative economic management the fundament of the economy in Hungary, higher taxes are levied on incomes from the sale and purchase of properties reclassified from the status of agricultural land. The amount of income above the usual rate of return will be levied a three-fold tax rate, i.e. this part of the income is liable to 48 percent tax instead of the usual 16 percent.

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Ministry for National Economy