

## Hungary: Tax Package Passed

The Hungarian Parliament passed the new government's first tax package on 22 July 2010. The most important change is the lowering of the corporate tax rate to 10% for the part of the tax base that does not exceed HUF 500 million (approximately EUR 1.8 million). Several minor taxes were abolished, including inheritance tax and gift tax between lineal relatives. Payments made to people who are hired to various odd jobs around the house are no longer subject to any tax or social security contribution.

On the other hand, a special tax will be imposed on banks and insurance companies on the basis of their balance sheet total, and if a public employee receives severance pay in excess of HUF 2 million, the part over this threshold will be subject to tax at 98%, with retrospective effect.

In terms of providing stimulus to the economy, the most important change is the reduction of the corporate tax rate. The rate was 16% until the end of 2009, and a special tax was also payable at a rate of 4%. The special tax was abolished on 1 January 2010, but the corporate tax rate was raised to 19%. A 10% rate also existed, but it was only available to companies that had a tax base of not more than HUF 50 million and only if they met certain conditions.

Under the new legislation, the 10% rate will apply to all companies without the requirement to meet any conditions, up to a limit of HUF 500 million. The 19% rate will only apply to the part of the tax base that is over this limit.

In practical terms, this means that Hungary imposes corporate tax on small and medium enterprises at the lowest rate in the region.

Other important business-friendly rules include the abolishment of the local communal tax for businesses and the tax-free status of intra-group transfers of companies holding real properties.

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