Booklet no. 41.

Key rules of the taxation of business associations 2023

In this Information Booklet, we introduce main provisions of the corporate income tax, tax base derivation, the most important tax base adjustment items and tax allowances. The main provisions concerning taxation of civil society organisations (CSOs like foundations, associations) may be found separately, in the Information Booklet no. 13.

In this Information Booklet, you can read about the following topics:

1. Corporate income tax (CIT) obligations of resident taxable persons;
2. Corporate income taxpayer groups;
3. Non-resident taxable persons;
4. Tax base;
5. Adjustment items for pre-tax profit;
6. Income (profit) minimum;
7. Assessing the tax base of corporate income taxpayer groups;
8. Trust foundation;
9. The tax rate;
10. Provision for the tax;
11. Tax reliefs;
12. Growth tax credit;
13. Establishment, declaration and payment of payable tax and tax advance.

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1. Basic principles

- Appropriate exercise of rights[1];
- Prohibition of double application of benefits, unless a provision of the Act expressly refers to multiple application[2];
- Priority of international conventions[3];
- Compliance with the provisions[4] of Accounting Act[5]
- Compliance with IFRSs if the taxpayer prepares his financial statements in accordance with IFRSs.[6]

2. Taxable persons (taxpayers)

Persons subject to corporate tax are resident persons and non-resident persons.

2.1. Resident taxable persons

The corporate income tax liability of resident taxpayers is full tax liability meaning that it extends to their domestic and foreign income.

The law lists in detail resident taxpayers, they are as follows[7]:

[1] Subsection 2 of Section 1 of the Act LXXXI of 1996 on Corporate Income Tax and Dividend Tax (CIT Act).
[2] Subsection 3 of Section 1 of the CIT Act.
[3] Subsection 4 of Section 1 of the CIT Act.
[4] Subsection 5 of Section 1 of the CIT Act
[5] Act C of 2000 on Accounting (SZt.)
[6] Subsection 6 of Section 1 of the CIT Act.
[7] Subsection 2, 3 of Section 2 of the CIT Act.

a) business associations (including non-profit business associations, regulated real estate investment pre-companies, regulated real estate investment companies and regulated real estate investment special purpose companies), groupings and European public limited-liability companies (including European holding companies), and European cooperative societies,
b) cooperative societies,
c) public companies, trusts, other state-controlled economic organizations, special purpose entities, and subsidiaries,
d) law offices, court bailiffs' offices, patent agencies, notary's offices, and forest management associations,
e) Employee Stock Ownership Plans that is "ESOP",
f) water management associations,
g) foundations, public foundations, associations, public bodies (including any organizational units of such organizations vested with legal personality in the bylaws or charter document), as well as ecclesiastical legal entities, housing cooperatives, and voluntary mutual insurance funds,
h) institutions of higher learning (including the institutions they have established), student hostels,
i) European groupings of territorial cooperation,
j) sole proprietorships,
k) the European Research Infrastructure Consortium (ERIC),
l) the trust foundations, public-benefit trust foundations fulfilling public functions,
m) any non-resident person whose principal place of business management is in Hungary,
n) a trust fund managed under a fiduciary asset management contract.

From 2022 onward, a reverse hybrid economic entity is a resident taxpayer. A reverse hybrid economic entity is one that

- is incorporated or has its seat in Hungary, and
- is not subject to corporate tax under the general rules,

and in which

- one or more associated entities jointly have more than 50 per cent influential control in the form of direct or indirect voting rights, subscribed capital or after-tax profit, and
- the said organisation(s) are not resident in the country and their fiscal jurisdiction consider the hybrid entity registered or established in Hungary as corporate taxpayer or any other form of tax that is considered equivalent to corporate tax.[8]

The income of the reverse hybrid entity is taxed in Hungary to the extent that such income is not taxed under the tax laws of Hungary or other tax jurisdictions.[9]

2.1.1. Corporate Income Taxpayer Groups

At least two taxpayers may establish a corporate income taxpayer group, according to special conditions and in accordance with the CIT Act. As a rule, the corporate income

[8] Subsection 7 of Section 2 of the CIT Act.
[9] Subsection 7 of Section 16/B of the CIT Act.

taxpayer group fulfils its tax obligations through a group representative, under the group identification number, and exercises its taxpayer rights.

Members of a corporate income taxpayer group may be operating in the following organizational forms:

- business association (except for not for profit business association),
- grouping,
- European public limited-liability company,
- cooperative society (except for social cooperative, public interest association of pensioners and school union),
- European cooperative society,
- sole proprietorship,
- foreign person considered a resident taxpayer due to the location of the head office, and
- any non-resident entrepreneur via its Hungarian branch.

Additional joint conditions for the creation of a corporate income taxpayer group are:

- direct or indirect majority control must exist between members according to the provisions of the Civil Code, where one group member or future group member controls at least 75 per cent of the voting rights in the other group member or future group member, or another person controls at least 75 per cent of the voting rights in the group members or future group members (the voting right of an intermediary legal person may be taken into consideration on behalf of the holder of participating interest, if the holder of participating interest controls at least 75 per cent of the voting rights in the intermediary legal person),
- the balance sheet date specified in the group members' accounting policy, or the last day of the tax year at taxpayers not required to file a financial report is the same,
- the financial report, closing accounting statements are prepared uniformly by all group members either according to Chapter III of the Accounting Act or to IFRSs.

At the first condition, the direct and indirect voting rights of close relatives under the Civil Code must be combined.[10]

Persons starting up their activities during the course of the year may be admitted to the corporate taxpayer group as member, if able to meet the conditions set out above.[11]

A taxpayer can only be a member of one corporate income taxpayer group at a time.

A corporate income taxpayer group may be established by authorization of NTCA upon request (submitting the application on form 'T118).

The time limit for submitting the application shall be – as a general rule – the period from the first to the twentieth day of the penultimate month of the tax year. If the conditions under CIT ACT are met, the National Tax and Customs Administration (NTCA) authorizes

[10] Subsection 6 of Section 2/A of the CIT Act.
[11] Subsection 5 of Section 2/A of the CIT Act.

the formation of the corporate income taxpayer group and establishes the group identification number in the permitting decision.

The tax liability of the corporate income taxpayer group shall commence on the first day of the tax year following the date of submission of the request. For instance, if taxpayers operating by calendar year wish to form a corporate income taxpayer group from 1 January 2024, they must file a request to do so between 1 November and 20 November 2023.

Membership of a joining taxpayer shall commence on the first day of the tax year following the date of submission of the request. However, membership of persons starting up their activities during the course of the year shall be considered to exist from the day when corporate tax liability would otherwise begin.[12]

If the termination of a corporate income taxpayer group / group membership not yet existed on the last day of the financial year preceding the financial year that covers the day of termination the corporate income taxpayer group and/or group membership, it shall be construed as the corporate income taxpayer group and/or group membership did not come into existence.[13] For instance, if the corporate income taxpayer group was formed on 1 January 2023 and the number of group members falls below two on 20 July 2023, meaning that the corporate income taxpayer group ceases to exist, then given that the corporate income taxpayer group would cease to exist on 31 December 2022 but had not yet been established at that date, it should be considered as if the corporate taxpayer group had not been formed.

2.2. Non-resident taxable persons

The corporate income tax liability of a non-resident taxable persons is limited tax liability meaning that it extends to his income from domestic business.

The following fall within this category[14]:

a) the foreign entrepreneur carrying on business at domestic premises,
b) a foreign member of a Hungarian company with real estate[15] , which alienate or withdraw its existing share and earns income in such a way.

3. Non-taxable persons

The organizations listed in Annex 5 of the CIT Act are not subject to corporate income tax[16] . This list is not exhaustive; for all those legal persons, organizations without legal personality which are not included in the list of taxable persons (point 2) (for example, budgetary bodies, condominiums) are not subject to corporate tax. Neither the individual nor the sole proprietor is a taxable person.

[12] Subsection 3a of Section 6 of the CIT Act.
[13] Subsection 3d of Section 6 of the CIT Act.
[14] Subsection 4 of Section 2 of the CIT Act.
[15] Point 18 of Section 4 of the CIT Act
[16] Subsection 5 of Section 2 of the CIT Act.

4. Tax base

As a general rule[17], the tax base shall be determined on the basis of the pre-tax profit shown in the annual report. The taxable amount is the amount of pre-tax profit adjusted by the adjustment items[18]. Tax liability is calculated after the positive tax base. The specific rules[19] for determining the tax base are not detailed here.

The rules governing the determination of the tax base of a corporate taxpayer income group are set out in point 8.

5. Adjustment items for pre-tax profit

Some of the adjustment items are used to protect the tax base. They prescribe the use of an item of increase mainly in connection with the costs and expenses accounted for in accordance with the Accounting Act, or, in accordance with the Accounting Act, include the application of a deduction to income recognized in profit or loss.

The other part of them specifically serves the purpose that the costs and expenses incurred in a certain way increase the tax base. In other cases, a discount - sometimes multiple discounts - is provided by prescribing reduction items. The following is a description of the content of some of the correction items that typically arise.

5.1 Write-off of losses

If the tax base is negative (loss) in any tax year, the deferred amount may be used by the taxpayer to reduce[20] its pre-tax profit in the next five tax years, subject to certain conditions[21].

Unused accrued losses incurred up to the last day of the tax year beginning in 2014 may be written off in accordance with the regulations in force on 31 December 2014[22].

As a general rule, the deferred loss of previous tax years can be accounted for as a reduction of the pre-tax profit up to 50 percent of the tax base which was calculated without the use of the deferred loss[23]. The loss taken over from the legal predecessor at the legal successor can be written off under special conditions, and also when the identity of the majority owner changes (not because of transformation) during continuous operation.

A limited liability company set up to carry on the activities of a sole proprietor[24] may take into account as deferred losses the amount of losses incurred by the founding sole proprietor which have not yet been written off, bearing in mind that if only part of the assets registered at the sole proprietor become the property of the limited liability

[17] Subsection 1 of Section 6 of the CIT Act.
[18] Section 7, 8, 16, 18 and 28, Chapter VII of the CIT Act.
[19] Section 9, 10, 12, 13/A, 15, 15/A and 16, Chapter II/A of the CIT Act.
[20] Section 17 and Chapter VII of the CIT Act.
[21] Point a) of Subsection 1 of Section 7 of the CIT Act.
[22] Subsection 6 of Section 29/A of the CIT Act.
[23] Subsection 2 of Section 17 of the CIT Act.
[24] Section 19/C of Act CXV of 2009 on Self-Employed Persons and Self-Employed Companies.

company, the reduction due to loss write-down may be applied to the proportion of the assets transferred in proportion to the value of all the assets.[25]

5.2 Transfer to/from provisions

Taxpayers with double-entry bookkeeping **must increase**[26] their pre-tax profit by the amount of the provision for expected liabilities[27] and future expenses[28] recognized as an expense in the tax year. In turn, the income for the tax year recognized as a result of the use of these provisions **reduces**[29] the pre-tax profit.

5.3 Depreciation, depreciation write-off

The pre-tax profit **is increased**[30]in the tax year by the following items charged to the pre-tax profit according to the Accounting Act:

- planned depreciation, including depreciation accounted for in a single amount,
- unplanned depreciation,
- book value when a tangible or intangible asset is derecognised.

The pre-tax profit **is decreased**[31] by:

- the amount of depreciation determined in accordance with Annexes 1 and 2 to the CIT Act, including depreciation accounted for in a single amount,
- the amount of unplanned depreciation that can be claimed at the tax base, in accordance with Annexes 1 and 2 to the CIT Act,
- the adjusted book value of the asset when an intangible or tangible asset is derecognised under any heading[32].

No depreciation can be accounted for[33] in the system of the corporate income tax, therefore there is not a reduction item in respect of assets for which, according to the Accounting Act, planned depreciation cannot be or must not be accounted for, so there is not any increase item either. An **exception to this** (i.e. there is a reduction item):

- in the case of an asset with a book value equal to zero or, as a result of planned depreciation, the residual value[34], and

- if the taxpayer enforces excess depreciation at the tax base established in accordance with the Accounting Act[35], furthermore

[25] Subsection 5 of Section 16 of the CIT Act.
[27] Point a) of Subsection 1 of Section 8 of the CIT Act.
[28] Subsection 1 of Section 41 of the Accounting Act.
[29] Subsection 2 of Section 41 of the Accounting Act.
[30] Point b) of Subsection 1 of Section 7 of the CIT Act.
[30] Point b) Subsection 1 of Section 8 of the CIT Act.
[31] Point d) of Subsection 1 of Section 7 of the CIT Act.
[32] Point 31/a of Section 4 of the CIT Act.
[33] Point 4 of Schedule 1 of the CIT Act.
[34] Point 6 of Subsection 4 of Section 3 of the Accounting Act.
[35] Point 10, Annex 1 of the CIT Act.

- in the case of buildings, structures.

Low-value assets are also subject to the rule that assets, in the case of which planned depreciation is not allowed to be accounted for, depreciation may not be accounted for at the tax base, either. Thus, for instance, the individual cost of a painting or sculpture (work of fine art) below HUF 200,000 does not constitute an increasing or decreasing correction item.

5.4 Dividends and shares received (due)

The pre-tax profit is **reduced**[36] by the income recognized in the tax year as dividends and shares received (due), **except**

- if the dividend taker recognizes the dividend as an expense. Such a giver can only be a foreign person, as the approved dividend cannot be accounted for as an expense under the Hungarian Accounting Act.

Received or due as dividends and shares from a controlled foreign company[37], if they connect to a non-genuine arrangement of the controlled foreign company, or to a series of non-genuine arrangements, may only be taken into account as a reduction item to the pre-tax profit if the taxpayer has earlier accounted for any increase item[38] in connection with the controlled foreign company's undistributed profits originating from non-genuine arrangements - and the taxpayer had not yet taken its amount into account as a decrease item[39].

5.5 Development reserve

The taxpayer may form a development reserve for his future investments. If you use this option, your pre-tax profit is **reduced**[40] by the amount of the profit reserve transferred to the reserve in the tax year and shown as a reserve on the last day of the tax year that is the development reserve but by not more than the amount of pre-tax profit of the tax year. The amount applied as a deduction shall be treated as a recognized depreciation[41], while in the case of an investment made in the tax year with a value exceeding the part released from the development reserve, the depreciation may be continued from the date of putting the tangible asset into operation.

The condition for maintaining this benefit is that the taxpayer may use the reserve, subject to the exceptions[42], only according to the costs of the implemented investment in the following 4 tax years; otherwise, he must pay the tax plus a late payment surcharge on the dissolved portion.

[36] Point g) of Subsection 1 of Section 7 and point 28/b of Section 4 of the CIT Act.
[37] Point 11 of Section 4 of the CIT Act
[38] Based on Point f) of Subsection 1 of Section 8 of the CIT Act
[39] Provision provided in the Point g/2 of Subsection 1 of Section 7 of the CIT Act, being in force as of 27th November 2020
[40] Point f) of Subsection 1 of Section 7 of the CIT Act.
[41] Point 12 of Schedule 1 of the CIT Act.
[42] Subsection 15 of Section 7 of the CIT Act.

5.6 Taxpayer participating in vocational training

Taxpayers who participate in specialized education as a dual training place are entitled to a tax base discount. The rate of the discount is 24 per cent of the minimum wage valid on the first day of the tax year for each month started, per each student participating in specialized education with a vocational training employment contract, per each person participating in training.

5.7 Employment of early-stage employees, unemployed or other persons

The amount of social contribution tax paid during the period of employment of the following persons, but for a maximum of 12 months, **reduces**[43] the pre-tax profit, in addition to being accounted for as an expense[44]:

- the student referred to in the previous point, a person participating in training, after obtaining the vocational examination,
- **the formerly unemployed person**[45],
- persons **released from imprisonment** within 6 months from the date of release, or persons **released on parole** for the duration of their employment,

Taxpayers may apply this provision if they have not terminated by ordinary notice the employment of another employee working in an identical position[46] since or within a period of six months prior to the employment of the previously unemployed person, and the previously unemployed person was not employed by the taxpayer within a period of six months prior to such employment.

5.8 Employment of persons with disability

The pre-tax profit **may be reduced**[47] for taxpayers employing workers with disabilities,

- by the monthly wage paid to each handicapped worker, but

- maximum the prevailing minimum wage in effect on the first day of the tax year,

provided that the average statistical number of employees does not exceed twenty persons for the tax year.

5.9 Benefits related to worker mobility allowances

The following items can be claimed as tax base reductions[48] in addition to accounting as an expense:

[43] Point j) of Subsection 1 of Section 7 of the CIT Act.
[44] Point j) of Subsection 1 of Section 7 of the CIT Act explicitly refers to the double discount.
[45] Pursuant to Subsection 3 of Section 7 of the CIT Act : Formerly unemployed person shall mean a job-seeker defined as such in the Job Assistance and Unemployment Benefits Act before finding employment.
[46] Point 3 of Section 4 of the CIT Act.
[47] Point v) of Subsection 1 of Section 7 of the CIT Act.
[48] Point k) of Subsection 1 of Section 7 of the CIT Act.

- the cost claimed in the tax year in connection with a workers' hostel provided for in the Personal Income Tax Act, and any increment to that cost, in the tax year when the investment, renovation took place,
    - and the lease charges on any real estate property leased for the purposes of a workers' hostel in the tax year,
    - as well as the sum claimed in the tax year under maintenance and operation of the workers' hostel;
- the sum shown as the cost of a building of long-life structure, built for providing rental units to their workers and directly serving the said activities, or shown as any increment to that cost, in the tax year when the investment, renovation was completed.

The condition for using the discount related to the rental apartment may be applied only if the building is used for providing housing to such an employee working at least thirty-six hours a week, and his close relative residing with said employee,

- who has no residence in the community where his workplace is located, furthermore,

- whose residence and workplace are at least sixty kilometres apart, or whose commute between his residence and workplace exceeds three hours each day traveling by means of public transportation.

This may not be applied where housing is provided to an employee who qualifies as an affiliated company, including his family member.[49]

Unless otherwise provided, the taxpayer may benefit from the reduction related to the mobility objective on several items, but this may not exceed the amount of the positive pre-tax profit, as this is the limit of the tax base benefit.

5.10 Fines, legal consequences

Pre-tax profit shall be **increased**[50] by the following:

- a fine established in a legally binding judgment, to be paid for violating legal requirements, such as an environmental fine. Penalty charged by the contractual parties, default interest according to the Civil Code does not qualify as a fine, so it is not an increase.
- the amount of liabilities claimed as expenditures, arising from the sanctions prescribed in the Code of Tax Administration Procedure, and the Act on the Rules of Taxation (default penalty, late payment surcharge, tax penalty), except when related to self-revision,
- the amount of liabilities claimed as expenditures, arising from the sanctions prescribed in the acts on social insurance (fine, late payment surcharge, etc.), except when related to self-revision.

[49] Subsection 30 of Section 7 of the CIT Act.
[50] Point e) of Subsection 1 of Section 8 of the CIT Act.

Deductible item[51]is the income recognized in the tax year due to the subsequent reduction / remission of a fine or other legal consequences, if it was taken into account by the taxpayer as an item increasing the pre-tax profit in the previous tax year(s).

5.11 Tax audit, self-revision findings

According to the provisions of the Accounting Act, the "discrepancies" revealed during the tax authority audit or the self-revision for the same year, i.e. errors affecting revenue, expenses, expenses, profit or loss, equity, must be differentiated according to whether they are significant or insignificant.

If the error found is **significant**, it does **not affect the tax base adjustment**. An error is of significant value[52] if, in the year in which the error was discovered, the aggregate sum of the absolute values of the errors increasing or decreasing profit or equity, detected during the various audits for a given business year (separately per year) exceeds

- 2 per cent of the balance sheet total of the audited business year, or if 2 per cent of the balance sheet total does not exceed HUF 1 million, HUF 1 million, or
- a lower value than the previous ones, which is considered to be a significant amount as set out in the taxpayer's accounting policy.

If the error found is **not a significant amount**[53] it modifies the profit for the current year according to the year in which the error was discovered; a correction item is as follows:

An amount determined during a tax audit or self-revision according to the Act on the Rules of Taxation, Code of Tax Administration Procedure, that is recognized as revenue for the tax year or as an increase in capitalized own production in the case of single book-keeping, an increase in taxable income, paid inventory, **reduces**[54] the pre-tax profit.

The amount determined during the tax audit, or self-revision according to the Act on the Rules of Taxation, Code of Tax Administration Procedure, that is recognized as an expense in the tax year, or as a reduction in capitalized own performance in the case of single book-keeping, including a decrease in inventories paid, **increases**[55]the pre-tax profit.

In relation to this latter provision prescribing an increase item, it is possible for the taxpayer that, according to his choice, **not to make a self-revision** in relation to his tax year's (for instance 2020) tax return affected by mistake he takes a minor error (for instance 100 units) into account in the tax return submitted for the tax year when the error discovery was made (for instance 2023) that is the taxpayer does not apply any correction. **The condition of this approach** is that the tax base for the 2020 tax year impacted by the minor error (100 units) exceeds the amount the minor error represents (meaning that the tax base should be at least 101 units)[56].

[51] Point r) of Subsection 1 of Section 7 of the CIT Act.
[52] Point 3 of Subsection 3 of Section 3 of the Accounting Act.
[53] Point 4 of Subsection 3 of Section 3 of the Accounting Act.
[54] Point u) of Subsection 1 of Section 7 of the CIT Act.
[55] Point p) of Subsection 1 of Section 8 of the CIT Act.
[56] Subsection 8 of Section 8 of the CIT Act.

5.12 Basic research, applied research, experimental development

Pre-tax profit **can be reduced**[57] by 100 percent of the taxpayer's direct costs of basic research, applied research and experimental development[58] (R&D) carried out within the taxpayer's own scope of activities or on the basis of a research and development agreement[59] (not including the received subsidies as well as the value of research and experimental development services provided by a resident corporate income taxpayer, by the domestic branch of a non-resident entrepreneur or by a private entrepreneur) claimed in the tax year in which it is incurred; regardless of whether the value of the experimental development is capitalized by the taxpayer i.e. it is indicated in intellectual property or not. This discount can therefore be applied in addition to the recognised costs.

Based on the taxpayer's decision, the discount can be used for several tax years for the capitalized value of the experimental development reduced by the support, in the same way as the depreciation.

The basis for the discount **should not be reduced**[60] by the value of the R&D used as a service recognized as part of the direct cost if the service is provided by a person who / or that is not another corporate income taxpayer, not a sole proprietor but, for example, a budgetary body, and declares that s/he has not used the services of those listed for the service either.

The value of the intermediated service reduces the tax base if it is part of the direct cost.[61]

Direct R&D costs **may not be considered** as recognized costs[62] incurred in the interest of business activities if they are not related to the taxpayer's business or revenue-generating activities.

It is also possible for the taxpayer (company "A") to reduce its pre-tax profit in view of the direct cost of its R&D activities carried out by its affiliated company (company "B") by the amount determined in accordance with the above[63] but not claimed at the choice of company "B"[64] That is, Company "B" may pass on all or part of the benefit to its affiliated company "A", or even several of its affiliates.

Thus, the **deductible item** can be applied to company "A" if it has a **written declaration** from its affiliated company i.e. company "B" until the submission of the tax return, which includes the amount of direct costs of the affiliated company's R&D activities in the tax year, and the amount that can be enforced by the taxpayer(s). The amount(s) specified in the declaration(s) may not exceed the amount that can be enforced as a tax base reduction item by the issuer of the declaration. The taxpayer and its affiliated company are jointly and severally liable for the fulfilment of the contents of the declaration.

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[57] Point t) of Subsection 1 of Section 7 of the CIT Act.
[58] Points 1, 2 and 7 of Section 3 of Act LXXVI of 2014 on Scientific Research, Development and Innovation.
[59] Point 23/e of Section 4 of the CIT Act.
[60] Subsection 18 of Section 7 of the CIT Act.
[61] According to Section 51 of the Accounting Act.
[62] Point A/15 of Schedule 3 of the CIT Act.
[63] Point t) of Subsection 1 of Section 7 of the CIT Act
[64] Point w) of Subsection 1 of Section 7 of the CIT Act.

The issuer of the declaration and the beneficiary are obliged to **provide information** on the data contained in the declaration in the **corporate income tax return**[65].

It is also possible for the customer and the service provider to apply the allowance for direct R&D costs on the basis of a joint written statement of the parties. The CIT ACT does not stipulate the proportion of the distribution of the allowance, so even the full amount of the reduction item can be enforced by the customer. However, the allowance that can be used jointly by the parties may not exceed the amount available to the service provider.[66]

The condition for the shared using of the allowance is that the customer and the service provider record in a written statement until the submission of the tax return

- the quality of the service's research and experimental development service,
- the amount that can be accounted for by the service provider as tax base allowance[67] from this
- the amount that may be taken into account by the customer and the service provider.

The customer and the service provider are jointly and severally liable for the reality and fulfilment of the contents of the declaration.[68] The parties are not obliged to provide information in the corporate tax return.

In the case of shared enforcement of the deduction, neither the service provider nor the customer may pass on or to the allowance to which he is entitled to his affiliate.[69]

The taxpayer, which conducts R&D activities with specific organizations (such as higher education institutions) on the basis of a written contract, may use as a deduction **three times the amount** of the tax base allowance **but not more than HUF 50 million,** unless the taxpayer, as mentioned in the latter, uses allowance inherited from his affiliate[70].

5.13 Prices charged between affiliates

If in the agreements and contracts between affiliated companies a higher or lower consideration is applied (calculated exclusive of value added tax) than the consideration enforced or that would be enforced vis-à-vis independent parties under fair competition and comparable circumstances (arm's length price), the taxpayer - irrespective of any other adjustment items as prescribed in the CIT ACT - takes the difference between the fair market price and the consideration applied and shall modify the pre-tax profit.

The **arm's length price** shall be determined by either of the methods pursuant to the CIT Act[71].

[65] Subsection 21 of Section 7 of the CIT Act.
[66] Subsection 18a of Section 7 of the CIT Act.
[67] Pursuant to Section 7 (1) (t) of the CIT Act.
[68] Subsections 18b and 18c of Section 7 of the CIT Act.
[69] Subsection 18d of Section 7 of the CIT Act.
[70] Subsection 17 of Section 7 of the CIT Act.
[71] Subsection 2 of Section 18 of the CIT Act

The CIT Act requires the mandatory use of statistical methods where appropriate to reduce the potential biasing effects of database filtering. If the taxpayer, when applying the methods for determining the arm's length price, takes into account data on the comparable product, service or business stored in a database that is publicly available or verifiable by the tax authority or available from other sources that are publicly available or verifiable by the tax authority, it further narrows the range by applying the middle range in which half of the elements of the sample fall (the interquartile range)[72].

The CIT Act specify in details of the cases in which an affiliate relationship exists between a taxpayer (for instance company "A") and another person (for instance company "B", private individual)[73].

The establishment of an affiliate relationship between the taxpayer and another person does not in itself give rise to a tax base adjustment, but in the case of any contractual transaction (sale, purchase, lending, etc.) of the persons belonging to the affiliate, on the one hand, a notification obligation arises[74], on the other hand, the consideration used in relation to the arm's length market price (price, interest) must be examined. Furthermore, nor do the contracts of the parties themselves, or those of the affiliate, necessarily constitute an adjustment obligation, only if the consideration applied for that contract differs from the arm's length market price. According to the exceptional rule, if the affiliate is a private individual, there is no adjustment item, i.e. there is neither an upward nor a downward adjustment in the case of a price application other than the arm's length market price under the contract concluded with him.

It **reduces**[75] the taxpayer's pre-tax profit if all of the following conditions are met:

- the consideration applied renders the pre-tax profit greater than it would have been had the arm's length market price been applied,

- the affiliated company contracted is
  - a resident taxpayer or
  - a foreign person, other than a controlled non-resident company, who is subject to any tax that may be substituted for corporate tax according to the national law of the country where it is established, and

- it holds a document signed by both parties that contains the amount of the difference, and

- it possesses the other party's statement declaring that that other party applies or applied the amount of the difference (the sum determined under the principle of arm's length market price provided for in the national law of the other party) in determining the amount of corporate tax or any taxable amount that is considered equivalent.

[72] Subsection 9 of Section 18 of the CIT Act (with effect from 26 August 2022, applicable for the first time to the tax liability for the tax year starting in 2022).
[73] Point 23 of Section 4 of the CIT Act
[74] Point b) of Subsection 4 of Section 16 of Government Decree no. 465/2017 (XII.28.) on the Detailed Rules of the Tax Administration Procedure.
[75] Point a) of Subsection 1 of Section 18 of the CIT Act.

The taxpayer has to add[76] his pre-tax profit if the consideration applied renders the pre-tax profit **lower** than it would have been had if the arm's length market price had been applied.

The founder, the taxpayer who receives capital or pays out any part of the capital, and members (shareholders) also in case of **contribution** may be a change in pre-tax profit, if the member with a majority influence or becoming one with the establishment (shareholder)

- pays-up or increases the subscribed capital, capital reserves,
- decreases through disinvestment the subscribed capital,
- will receive an expense upon termination,
- receives a dividend provided by means other than money by non-monetary contributions[77].

5.14. Allowance of donation and support

The pre-tax profit **can be reduced**[78] by the following non-repayable financial supports or grants:

- support or grant if provided to public benefit activities of a public-benefit organisation[79],
- support or grant if provided to the Magyar Kármentő Alap (Hungarian Fund for Clean-up and Salvage), the Nemzeti Kulturális Alap (National Cultural Fund), the Kárenyhítési Alap (Agricultural Compensation Fund") on a voluntary basis, without statutory obligation or
- support or grant provided to higher education institutions under higher education support agreement,
- support or grant provided to public-benefit trust foundations fulfilling public functions in the frame of a founder's or affiliate's property arrangement or in order to support their public benefit activities.

The degree of the tax base relief, based on provided support or grant shall be:

- In the case of support or grant provided to a public benefit organisation (except for public-benefit trust foundations fulfilling public functions) **20 per cent** of the value of support or grant and **40 per cent** if provided under a long-term donation agreement;

- In the case of support or grant provided to the *Magyar Kármentő Alap* (Hungarian Fund for Clean-up and Salvage), the *Nemzeti Kulturális Alap* (National Cultural Fund) and the *Kárenyhítési Alap* (Agricultural Compensation Fund") **50 per cent** of the value of support or grant;

[76] Point b) of Subsection 1 of Section 18 of the CIT Act.
[77] Subsection 6 of Section 18 of the CIT Act.
[78] Point z) of Subsection 1 of Section 7 of the CIT Act.
[79] Point 20 of Section 2 of Act CLXXV of 2011 on the Freedom of Association, on Public-Benefit Status, and on the Activities of and Support for Civil Society Organizations (hereafter ECTV).

- In the case of support or grant provided to a university (or its operator), which is maintained by a public-benefit trust foundation fulfilling public functions or by a church, under a higher education support agreement, **300 per cent** of the value of support or grant;

- In the case of support or grant provided to a public-benefit trust foundation fulfilling public functions, with regard to its public benefit activity, **20 per cent** of the value of support or grant and in the case of a founder's or affiliate's property arrangement, **40 per cent** of the value of support or grant;

- In the case of support or grant provided to a higher education institution - under a higher education support agreement – maintained by other entities than
  - a public-benefit trust foundation of public services or
  - a church,

  50 per cent of the value of support or grant,

however, up to the amount of the pre-tax profit on the aggregate.

Higher education support agreement shall mean an agreement concluded for a term of at least three years with a founder or operator provided for in Act CCIV of 2011 on National Higher Education for the foundation, operation of a higher education institution.[80]

Taxpayers may reduce the pre-tax profit only[81] in possession of a certificate made out for tax purposes by the public-benefit organisation, or the Magyar Kármentő Alap (*Hungarian Fund for Clean-up and Salvage*), Nemzeti Kulturális Alap (*National Cultural Fund*), the university or its operator, the higher education institution or the public-benefit trust foundation fulfilling public functions. The certificate shall contain denominations, seats, tax ID numbers of both the issuer and the taxpayer as well as amount and purpose of support or grant.

The amount of the donation, in addition to the deductible item described above, is a recognized expense at the tax base, i.e. **it does not have to increase**[82] pre-tax profit if the taxpayer has a certificate made out for tax purposes by the organisation receiving the donation. Taxpayers who make donations to the account number of the National Alliance do not need to have such a certificate.

The book value of non-repayable financial support or grant provided under higher education support agreement to a higher education institution during the tax year without consideration, the book value of assets provided free of charge, the direct costs of services supplied during the tax year without consideration shall qualify as costs or expenses incurred in the interest of business operations. Furthermore, amount of supports or grants defined according to the previous rules, which are provided free of charge to the institution's operator, shall also qualify as costs or expenses incurred in the interest of business operations[83].

[80] Point 16/c of Section 4 and Subsection 2 of Section 29/A of the CIT Act.
[81] Subsection 7 of Section 7 of the CIT Act.
[82] Point B/17 of Schedule 3 of the CIT Act.
[83] Point B/23 of the Schedule No. 3 to the CIT Act.

The following costs or expenses shall also qualify as costs or expenses incurred in the interest of business operations:

- The amount charged to pre-tax profit in connection with transferring property to public-benefit trust foundations fulfilling public functions when it is founded or it affiliates;
- The book value of non-repayable financial support or grant provided without consideration, the book value of assets provided free of charge, the direct costs of services supplied during the tax year without consideration;
- The value added tax accounted for as cost and expense in connection with supports and grants mentioned under the previous subparagraph, including as well the case when the property, grant, transfer or service is provided to the public-benefit trust foundations fulfilling public functions by not the founder or the new member but by a third party and the third party's grant is recognised by the founder or new member as its own[84].

5.15. SME's investment allowance

The taxpayer in respect of micro, small and medium-sized enterprises (SME) so qualified[85] on the last day of the tax year - if wishing to claim this allowance – **may reduce[86]** its pre-tax profit under the following conditions:

- the taxpayer has only had private individual members (shareholders, partners) throughout the entire year (including ESOP) apart from the taxpayer itself,
- the amount of the deduction shall not exceed the positive pre-tax profit in the tax year,
- entitles to allowance:
  - investment value in the tax year of new acquisition of land and buildings except the non-operational property[87],
  - investment value in the tax year of new acquisition of tangible assets to be classified as technical equipment, machines, vehicles[88] - directly serving the activity,
  - the value of the renovation, expansion, change of purpose, transformation of the tax year increasing the cost of the property,
  - the cost of the right to use new intellectual property and software products included in intangible assets in the tax year,
  - the value of the investment and renovation made and capitalized by the lessee on the leased property.[89]

The aid components of the deduction (calculated at the effective tax rate) for the purposes of the regulations governing State aid[90]

[84] Point B/25 of the Schedule No. 3 to the CIT Act.
[85] Act governing classification: Act XXXIV of 2004 on Small and Medium-sized Enterprises and Support for their Development [Point 24 of Section 4 of the CIT Act].
[86] Point zs) of Subsection 1 of Section 7 and Subsections 11 and 12 of Section 7 of the CIT Act.
[87] Point 34/a of Section 4 of the CIT Act.
[88] Subsection 4 of Section 26 of the Act on Accounting.
[89] Subsection 2 of Section 26 of the Act on Accounting.
[90] Subsection 12 of Section 7 of the CIT Act.

- **if the investment is linked to primary agricultural production**, shall be treated as an aid provided for in the regulation declaring certain categories of aid in the agricultural and forestry sectors and in rural areas compatible with the internal market in application of Articles 107 and 108 of the Treaty on the Functioning of the European Union;

- **if the investment is linked to the production and marketing of agricultural products**, it shall be treated, at the taxpayer's choice, as an aid provided for in the regulation declaring certain categories of aid in the agricultural and forestry sectors and in rural areas compatible with the internal market in application of Articles 107 and 108 of the Treaty on the Functioning of the European Union, or as de minimis aid received for the tax year or as aid provided under the Commission Regulation on State aid to small and medium-sized enterprises;

- **in all other cases** it shall be treated, at the taxpayer's choice, as de minimis aid received for the tax year or aid provided to small and medium-sized enterprises under the Commission Regulation on State aid to small and medium-sized enterprises.

The CIT Act contains a special provision[91] to retain the benefit obtained, taking into account the foregoing. The tax base of the tax year in which one of the events referred to in the law occurs **will be increased** of twice the amount of deduction enforced by the taxpayer. Such as the tangible asset or intellectual property in question is – not in case of unavoidable external causes – not put into operation or used, or the tangible asset or intellectual property put into operation is transferred to the current assets account, donated as a grant or contribution, sold, conveyed without consideration by the last day of the fourth tax year following the year in which it was deducted from the pre-tax profit. The "double amount" increasing adjustment entry[92] also applies in the event that the taxpayer ceases to exist without a legal successor within four tax years following the reference tax year.

5.16. Allowance for acquiring a share in a start-up company

A taxpayer is entitled to a tax base allowance who is acquires a share in a so-called start-up company[93]. A start-up company is a legal person registered according to the Government Decree[94] on the Registration of Start-up Companies, provided it complies with the relevant legislation and the additional conditions stipulated in the CIT Act are also met.

The amount of the allowance is three times the cost of the share acquired in the start-up company (including the increase in cost in view of the capital increase following the acquisition) in the tax year of the acquisition of the share and in the following three tax years, in equal instalments, but not more than HUF 20 million per tax year and per start-

[91] Point u) of Subsection 1 of Section 8 of the CIT Act.
[92] Point cf) of Subsection 1 of Section 16 of the CIT Act.
[93] Point m) of Subsection 1 of Section 7 of the CIT Act.
[94] Government Decree No. 331/2017. (XI.9.) on the Registration of Start-up Companies

up company, and subject to the additional conditions set out in the CIT Act[95]. The aid content of the tax base reduction item is considered to be '*de minimis*' aid.

A **sanctions increase** is related to the case where the taxpayer derecognizes the shares acquired in the start-up company, in part or in full, on any grounds - other than restructuring, merger, division, preferential transfer of assets, preferential exchange of shares - by the end of the third tax year following the tax year when the share was acquired[96]. In the tax year of the de-recognition, the pre-tax profit must be doubled as a deduction of the pre-tax profit so far as a deduction of the pre-tax profit. If the taxpayer terminated without succession in the tax year of the acquisition of the share or in the three following tax years, he must also repay (by applying an increasing item) twice the allowance previously valid[97].

If the taxpayer applies a depreciation for its shares in the start-up company, the amount of depreciation, but not more than the amount applied as a deduction of the pre-tax profit, increases the pre-tax profit in the tax year when it was recognised[98].

In the case of partly derecognizes the shares acquired in the start-up company, and applying a depreciation for the share acquired in the start-up company – using the incremental item as above – the partly derecognizes, in the tax year of the applying a depreciation and in the following tax year still available for the reduction of the tax base the applying of the reduction item may be continued with the value determined in proportion to the partial de-recognition and depreciation.

5.17. Impairment loss recognised on ownership interest

The tax base is increased - if the taxpayer so decides - by the amount of the impairment loss recognised in the tax year on the ownership interest when taken into account in the pre-tax profit as a charge.[99]

If the impairment is later reversed, the taxpayer can take it into account as a deduction.[100]

If the taxpayer later removes the relevant ownership interest from its books, the taxpayer can reduce its tax base by the part of the previous tax base-increasing item that has not yet been taken into account as a reducing item. To obtain such a reduction, the amount of the previous increasing item shall be supported by tax returns and other documents.[101]

The pair of adjustments for the impairment of a shareholding and the de-recognition of an ownership interest can be applied for the first time in determining the tax liability for the tax year of 2022 to the impairment recognised in the tax year of 2022.[102]

[95] Subsections 8-8d of Section 7 of the CIT Act.
[96] Point g) of Subsection 1 of Section 8 of the CIT Act.
[97] Sub-point cd) of Point c) of Subsection 1 of Section 16 of the CIT Act.
[98] Point i) of Subsection 1 of Section 8 of the CIT Act
[99] Point w) Subsection 1 of Section 8 of the CIT Act.
[100] Point q) Subsection 1 of Section 7 of the CIT Act.
[101] Point j) Subsection 1 of Section 7 of the CIT Act.
[102] Subsection 103 of Section 29/A of the CIT Act.

5.18. Relief for the installation of an electric charging station

A tax base reduction is available for the installation of an electric charging station. In the CIT Act, an electric charging station is defined as a device capable of charging or exchanging the energy storage of an electric vehicle.

The decreasing item is the acquisition cost of the electric charging station. The deduction can be claimed in the tax year in which the investment is completed, at the taxpayer's choice, which cannot be changed by a self-revision.

The tax content of the reduction item, i.e. 9 percent, is considered de minimis aid. The amount of the tax base reduction item claimed and the tax content thereof, i.e. the amount of state aid, shall be reported by the taxpayer claiming the reduction in its tax return.

6. Rules on disinvestment and tax avoidance

6.1. Disinvestment tax

From 2020, special rules will apply to cases of disinvestment. It is considered a disinvestment[103], if

1. a taxpayer transfers its place of management to another state, provided that this involves the transfer of its tax residence as well;
2. a taxpayer transfers assets from its head office in Hungary to a permanent establishment in another state, in so far as the assets transferred are no longer subject to taxation in Hungary under this Act;
3. a taxpayer transfers assets from its permanent establishment in Hungary to its head office or permanent establishment in another state, in so far as the assets transferred shall not be subject to taxation in Hungary under this Act;
4. a taxpayer transfers the business carried on by its permanent establishment from Hungary to another state in so far as the assets transferred are no longer subject to taxation in Hungary.

In the year of the disinvestment the taxpayers must increase the tax base by the amount according to the following formula[104]:

the market value of the transferred assets, activities at the time of exit
– their adjusted book value at the time of exit or its corresponding value

The increase shall be applied only if, due to the circumstance giving rise to the disinvestment, no increase in the tax base of at least this amount arises under other rules of the CIT ACT.[105]

In some cases[106], the taxpayer has the option of paying the tax payable on the transferred assets or activities in five instalments.

[103] Subsection 1 of Section 16/A of the CIT Act.
[104] Subsection 2 of Section 16/A of the CIT Act.
[105] Subsection 1 of Section 16/A of the CIT Act.
[106] Subsection 4 of Section 16/A of the CIT Act.

6.2. Rules on tax avoidance

Tax avoidance methods using hybrid structures take advantage of the situation where the parties involved are resident in different Member States and the payment made between them is classified differently by their Member States. Due to the different classification, the payment is not taken into account by either party in its tax base, so it remains untaxed. From 2020, the CIT ACT identifies cases[107] where a difference arises due to a different classification of the same facts. In these cases, the relevant cost or expense cannot be deducted from the tax base, and the relevant income must be part of the tax base[108].

7. Income (profit) minimum

The taxpayer must inspect at the end of each tax year that the **pre-tax profit** or **the tax base** allocated in accordance with the general rules **whichever is higher, reach or not the income (profit) minimum**. If so, he allocates his tax liability on its tax base determined in accordance with the general rules or, in the case of a negative tax base, deducts the losses. However, if, as before, the higher value does not reach the income (profit) minimum, then of his choice:

a. provides a statement in his tax return declaring his intention not to apply the income (profit) minimum as his tax base, and he encloses a tax return supplement form prescribed by the NTCA with his tax return (for legal aspects, the tax return supplement shall be treated as a tax return.), or
b. he considers the income (profit) minimum as the tax base (if the tax base according to the general rules is negative, he can deduct the amount of the losses in this case as well).

The income (profit) minimum requirements do not have to be applied in exceptional cases[109] (for instance, in the pre-corporate and following tax years).

The amount of the income (profit) minimum is 2 per cent of the total adjusted income[110].

8. Rules governing the determination of the tax base of a corporate income taxpayer group

Members of a corporate income taxpayer group will continue to **elaborate their individual tax base**, which may even be the income minimum (profit minimum), in accordance with the rules applicable to them. The group member shall make a declaration to the group representative of the individually determined tax base each tax year, by the 15th day before the tax return deadline applicable to the corporate income taxpayer group (usually 31 May following the tax year). To this end, the group member must keep records that are capable of supporting and verifying all the information contained in his/her declaration. The group representative shall take over the statements of the other members of the group, and provide data to the NTCA in the annual corporate tax return on the data included in the declarations of the other members and on their own, separately for each group member.

[107] Point 57 of Section 4 of the CIT Act.
[108] Section 16/B of the CIT Act.
[109] Subsection 6 of Section 6 of the CIT Act.
[110] Subsections 7-11 of Section 6 of the CIT Act.

Group members must also take into account the minimum rules of income (profit) when determining their individual tax base. The group member indicates his decision on the application of the income (profit) minimum to the group representative in the above statement, and this choice is made by the group representative to the NTCA in the annual corporate tax return. When the group member pays taxes on the tax base under the general rules, this negative tax base can be considered as an accrued loss, with regard to general rules of loss write-off.[111]

In **determining the individual tax base**, the group members act as a general rule as if they would continue to meet the tax liability independently. However, there are different rules in the following cases:

- When determining the individual tax bases, it is not possible to "transfer" between the group members the benefits of R&D activities and investments / renovations / maintenance affecting listed buildings.
- In the case of transactions between group members, the group member may not claim more discounts for royalties or R&D than what is due to him/her, taking into account the normal market price.
- As a general rule, transactions between group members are exempt from the transfer price adjustment obligation. Of these, only those transactions are subject to an adjustment, on the basis of which one party has already applied an adjustment item prior to group membership, but this has not yet been offset by the other party's tax base adjustment in the opposite "direction".

With regard to deferred losses, there is a limit to the total amount of the reduction applied individually and at group level.

When a tied-up provision for acquiring intangible assets embodying rights to royalties or for developments is released for ineligible reasons or not used within the deadline, the default penalty shall be paid by the taxpayer as a group member, during the period of group membership, via the group representative.[112]

The tax base of a corporate income taxpayer group for the tax year is the amount of non-negative tax bases determined individually by the group members, adjusted in accordance with the special rules for deferred losses for group taxpayers and their members.

The deferred loss of a corporate income taxpayer group in the tax year is the total amount of the negative individual tax bases of the group members in the tax year, provided that the individual tax bases arose in accordance with the principle of the proper exercise of rights. The deferred loss of the corporate income taxpayer group can be accounted for in the tax year of its occurrence and in the following tax years, last in the fifth tax year following the tax year of its occurrence, in the division according to the decision of the group representative, as a reduction of the tax base of the corporate income taxpayer group.

[111] Subsections 14 of Section 6 of the CIT Act.
[112] Subsections 15a and 16a of Section 7 as well as Subsection 85 of Section 29/A of the CIT Act.

The deferred loss of the corporate income taxpayer group therefore reduces the tax base of the corporate income taxpayer group, and the following limits apply to the extent of the reduction:

- The tax base of the corporate income taxpayer group must reach 50 per cent of the amount of the individual tax bases – calculated without taking into account deferred losses – of the group members with a non-negative individual tax base in the tax year, even after deducting the deferred loss.
- The combined amount of deferred loss applied individually by the corporate income taxpayer group and the group members may not exceed 50 per cent of the amount of individual positive tax bases without use of deferred loss.

9. Trust foundation, public-benefit trust foundation fulfilling public functions

The trust foundation and public-benefit trust foundation fulfilling public functions shall apply the provisions relating to the assets managed under fiduciary agreement, with the exception that its corporate tax liability shall begin on the date on which it is established in accordance with the law governing its formation.

Assets managed on the basis of fiduciary management, a trust fund carrying out fiduciary trust activities and the trust fund can make a declaration instead of a tax return on a form replacing the tax return, by 31 May of the year following the tax year, if:

- Assets managed by the fiduciary under fiduciary asset management contract with a natural person as grantor, solely for the benefit of a natural person as beneficiary,
- and a trust set up by a natural person exclusively for the provision of assets to a natural person as beneficiary,

and

- the assets managed and the trust foundation did not receive any income in the tax year, or if all of the income received in the tax year is subject to exemption[113].

The public-benefit trust foundation fulfilling public functions shall be exempt from paying the corporate income tax on the part of its tax base, which is represented within the overall revenue of the foundation by its revenue from its activities serving the fulfilment of its goals, its public function or tasks of general interest. This part of revenue may specifically come from the grant provided by the founder, from the revenue granted by new members of the foundation and from the revenue originating from taking over, managing and collecting the proceeds of assets originating from other sources.[114]

The tax exemption is valid if all income earned in the tax year originates from the receipt, holdings of financial investments, receivables, securities or funds, the collection of proceeds thereof or from exercising the right of disposition over such assets.[115]

The trust foundation and the public-benefit trust foundation fulfilling public functions do not have to apply the rules governing the minimum income (profit).[116]

[113] Subsection 7a of Section 5 of the CIT Act.
[114] Point f) of Subsection 1 of Section 20 of the CIT Act.
[115] Point b) of Subsection 1 of Section 20 of the CIT Act.
[116] Point d) of Subsection 6 of Section 6 of the CIT Act.

10. The tax rate

The corporate tax rate[117] is 9 percent of the positive tax base. The amount so determined is the **calculated corporation tax**, which, if the conditions are met, can be reduced by the taxpayer as a tax credit. If the taxpayer is not entitled to a tax allowance, the calculated corporate tax will be the tax payable.

11. Provision for the tax

For supporting show team sports and filmmaking, the rules for provisioning of the tax (CIT ACT offering) are contained in Information Booklet 55, named "CIT ACT offering.

12. Tax reliefs

The calculated tax may be reduced up to **80 per cent** thereof by means of a development tax benefit and any other tax relief[118] may be applied from the reduced tax to a maximum of **70 per cent** thereof. There is therefore no 100 percent tax relief; the calculated tax cannot be reduced to zero.

Tax advantages/reliefs can be claimed even by self-revision.

Tax reliefs of corporate income taxpayer groups

The corporate income taxpayer group is considered to be a single taxpayer for the purposes of enforcing the tax advantages, i.e. the group corporate taxpayer uses the tax advantage and not individual group members. **Declarations of rights** relating to the tax benefit **may be made only by the group representative.**

A corporate income taxpayer group may benefit from a tax benefit if a group member agrees to meet the conditions necessary for it and that group member actually fulfils them. Supporting movie productions and spectacle team sports takes place by group members. If the group member's group membership is not terminated as a result of termination without a successor, he may apply the tax advantage during the group membership up to the amount not used by the group corporate taxpayer.[119]

If a group member has acquired the right to a tax advantage before its group membership, the group corporate taxpayer may enforce it if the group member concerned also meets the terms of the discount as a group member.
The limitation of the enforcement of tax advantages for the group corporation taxpayer is as follows:

- Development tax relief[120] may be applied to the eligible group member up to 80 per cent of the calculated tax rate in proportion to its positive tax base.

[117] Section 19 of the CIT Act.
[118] Subsection 2-3 of Section 23 of the CIT Act.
[119] Subsection 9 of Section 23 of the CIT Act.
[120] Section 22/B of the CIT Act.

- The tax relief on energy efficiency investment and renovation[121] can be used from a calculated tax less the development tax benefit up to 70 per cent of the amount previously established for the eligible group member.

- Any other tax relief may be claimed from the amount of individual calculated taxes reduced the tax advantages thus used up to a maximum of 70 per cent.

12.1. Development tax relief under the 80 per cent limit

Development tax relief[122] is available for the commissioning and operation of specific investments as provided for in the Government Regulation[123]. For example, such an investment

- investments worth at least **HUF 3 billion** at present value[124], **investment to create jobs,**
- investments made by small enterprises worth at least **HUF 50 million** at present value, or
- an investment carried out by a medium-sized enterprise worth at least **HUF 100 million** at present value.

In some cases[125], the benefit of the tax advantage is conditional on a decision of the Government, based on the authorisation of the European Commission.

The taxpayer may apply a tax advantage for 13 tax years in the tax year following the commissioning of the investment or, at his discretion, in the tax year in which the investment is put into service, and in the following 12 tax years, **up to the 16th tax year[126]** following the tax year of notification or application.

In some cases, an additional condition for tax relief/tax benefit is that within four tax years following the first benefit of the tax reduction, the average number of persons employed does not fall below the arithmetic average calculated from the data of the three tax years preceding the start of the investment.[127]

A transitional development tax allowance may be claimed for the installation and operation[128] of investments that are of strategic importance[129] for the transition to a net-zero emission economy. An investment is considered to be such if its purpose is:

- the manufacture of batteries, solar panels, wind turbines, heat pumps, electrolysers, carbon capture and storage equipment;
- the manufacture of key components designed and directly used in the manufacture of such equipment;

[121] Section 22/E of the CIT Act.
[122] Section 22/B of the CIT Act.
[123] Government Decree no. 165/2014 (VII.17.) on Development Tax Reliefs.
[124] Present value calculation method according to Schedule 7 of Government Decree 165/2014 (VII.17.)
[125] Subsection 2a of Section 22/B of the CIT Act.
[126] Subsection 6 of Section 22/B of the CIT Act.
[127] Subsection 9 of Section 22/B of the CIT Act.
[128] Pursuant to Section 22/B (1) k) of the CIT Act effective from 15 July 2023.
[129] Point 25a of Section 4 of the CIT Act.

- the production or recovery of raw materials for the manufacture of equipment and components as defined above.

The allowance can only be granted for investments that would be undertaken0 outside an EEA Member State in the absence of state aid. For the investment activity, the taxpayer must use the latest commercially available state-of-the-art production technology in terms of environmental emissions.

Under certain conditions[130], a development tax allowance claimed before the entry into force can also be claimed under the new legal title.

12.2. Tax advantages under the 70 per cent limit

12.2.1. Support for spectacle team sports

The taxpayer is entitled to a tax benefit in the case of support for a sports organisation with an approved sports development programme or a foundation for the development of spectacle team sports[131] such as football, handball, basketball, water polo, hockey, volleyball. The form of the aid may be a sum of money granted without any obligation to pay back, an asset transferred without compensation, a free service which can be provided for the items specified by law.
The subsidisation of certain costs related to epidemiological protection[132] may give rise to tax reliefs. As such, for instance, support may be provided to sports associations for purchasing thermometers, masks, rubber gloves, coronavirus tests, and the related services as well as for costs in relation to hand sanitizers, sanitizing wipes, liquid disinfectants, medical protective clothing and medical examination.

The tax relief is available first in the tax year of the aid (allowance) and the last time in the tax year ending in the eighth calendar year following the calendar year of the aid (allowance)[133].

Basic support

The basic aid is the amount included in the **aid certificate[134]** issued to the taxpayer. The basic aid is a recognised cost to the tax base, i.e. it **does not increase[135]** the profit before tax.

The **combined conditions for the benefit of the tax advantage** are:

(a) when the application for an aid certificate is lodged, the taxpayer has no overdue public debt,

[130] Subsection 116 of Section 29/A of the CIT Act.
[131] Point 41 of Section 4 of the CIT Act.
[132] Subsection 1a of Section 22/C of the CIT Act.
[133] The total enforceability limit of 9 years applies to all aid granted since 2011, since the related transitional provision [Subsection 49 of Section 29/A of the CIT Act] applies for the first time to aid granted for the 2011-2012 aid period.
[134] Subsection 3 of Section 22/C of the CIT Act.
[135] Point B/15 of Schedule 3 of the CIT Act.

(b) the taxpayer transfers the amount covered by the aid certificate to the subsidised organisation and the additional sports development aid to the eligible organisation or the public body of sport[136],

(c) the taxpayer shall issue a letter of intent[137] to the organisation entitled to receive the aid before submitting an application for an aid certificate,

(d) the taxpayer declares that the aid and the additional sports development aid have been transferred (i.e. the fact of payment) to the NTCA within 30 days[138] of the financial performance of the aid. The application is made on the **SPORTBEJ** form and, in some cases[139], by the corporate income tax return.

[136] Point e) of Subsection 1 of Section 22/C of the CIT Act: the public body of sport (Hungarian Olympic Committee) having decision-making powers in the use of state sports aid for the strategic development of sport as defined in the Budget Act and granting the aid (Hungarian Olympic Committee).
[137] The organisation entitled to receive the aid shall certify in advance to the body empowered to issue the aid certificate that it shall make available to it, at least the amount of aid covered by the application for the aid certificate requested, provided by the supporting organisation indicated in the application on the basis of a letter of intent to issue it.
[138] Subsection 3d of Section 22/C of the CIT Act.
[139] If the 30-day period were to expire after the filing of the corporate income tax return for the tax year of the aid.

Additional sports development aid:

The additional sports development aid **shall be at least 75 per cent** of the value of the amount specified in the aid certificate at the corporate tax rate. **The taxpayer shall pay this amount** to the holder under a sponsorship or grant contract in the tax year of the basic aid. The organisation eligible for the supplementary sports development allowance shall, at the decision of the sponsor[140],

- the national sports association for the spectacle team sport supported, or
- the same organisation operating under the spectacle team sport supported by the basic support, or
- the other organisation for the purpose of the basic spectacle team sport as a sport.

In the case of aid to the public body of sport, the additional sports development aid shall be paid to that public body of sport.

Additional sports development aid is not a recognised cost and should therefore **increase** the profit before tax[141].

The taxpayer transfers the basic aid and the supplementary sports development allowance to the eligible payment account after receipt of the aid certificate. The number of the **payment account** for receiving the aid must be specified

- in the case of basic aid, in the aid certificate,
- in the case of additional sports development assistance, in the sponsoring or support contract on which it is based.

If the holder of the supplementary sports development grant is not a national sports association, an original of the sponsorship or support contract shall be sent by the taxpayer to the national sports association of spectacle team sport receiving additional sports development aid within 8 days of its conclusion[142].

The sponsor shall not be entitled to remuneration for the granting of the basic aid, the agreement to the contrary shall be null and void. In the event of such an agreement, the sponsor shall not be entitled to a tax benefit.

In the case of additional sports development assistance granted under the sponsorship agreement, the sponsor shall be entitled to remuneration.

The deadline for the granting of the additional sports development aid shall, in principle, be the last day of the tax year of the basic aid.

If the additional sports development allowance is transferred by the taxpayer after the tax year of the basic payment, but before the deadline for the submission of the corporate tax return for the tax year concerned, he may benefit from a reduced amount of tax relief[143] up to 80 per cent of the amount included in the aid certificate.

[140] Subsection 3a of Section 22/C of the CIT Act.
[141] Point A/12 of Schedule 3 of the CIT Act.
[142] Subsection 3c of Section 22/C of the CIT Act.
[143] Subsection 12 of Section 22/C of the CIT Act.

12.2.2. Support for film production

The amount of the tax advantage is the amount indicated in the aid certificate[144] issued to the taxpayer by the cinema topic professional authority. The tax advantage is available first in the tax year of the support or allowance and the last time in the tax year ending in the eighth calendar year following the calendar year of the support or allowance. The basic **aid does not increase[145]** the profit before tax when determining the tax base. The benefit of the tax advantage shall be conditional on the taxpayer also making the payment of the additional aid. The calculation and amount of the additional aid is the same as for sports aid (see section 12.2.1) and the holder is exclusively the National Film Institute Public Benefit Non-profit Private Limited Company[146].

12.2.3. Community fund reservation for cooperatives

The cooperative can benefit from 6.5 per cent of the community fund[147] reserved in the tax year as a tax benefit[148]. The tax advantage constitutes a de minimis aid[149].

12.2.4. Tax relief on interest on an SME investment loan

A taxpayer which, on the last day of the tax year of the conclusion of the credit agreement (including financial leasing), is a micro, small or medium-sized enterprise (SM) may apply a tax advantage to the acquisition of the capital asset, the interest from a financial institution and used solely for that purpose (including other loans certified to repay the loan used)[150].

The rate of tax relief is the interest rate on the loan.

The amount of the tax advantage used constitutes State aid under the relevant Community regulation (see paragraph 5.15)[151].

The tax advantage is granted in the tax year on which the capital asset is registered with the taxpayer; the last tax year in which the loan must be repaid under the original contract. The investment made using the tax advantage shall be put into service within 4 years of the year in which the credit agreement is concluded. An exception is where the subject of the investment is damaged for an unavoidable external reason. The fixed asset shall not be disposed of during the tax year of its commissioning and for the following 3 years. If any conditions are not met, the taxpayer must repay the tax benefit used, with a late payment surcharge added[152]. If the referred sanctioned event happens at the taxpayer when he is a member of a corporate income taxpayer group, he has to fulfil his repayment obligation via the group representative.

[144] Subsection 2 of Section 22 of the CIT Act, Section 31/C of Act II of 2004 on the Motion Picture.
[145] Point B/15 of Schedule 3 of the CIT Act.
[146] Subsections 1 and 6 as well as Point a) of Subsection 8 of Section 22 of the CIT Act.
[147] Section 58 of Act V of 2013 on the Civil Code.
[148] Subsection 14 of Section 22 of the CIT Act.
[149] Pursuant to Regulation 1407/2013/EU.
[150] Section 22/A of the CIT Act.
[151] Subsections 2-4 of Section 22/A of the CIT Act.
[152] Subsection 5 of Section 22/A of the CIT Act.

12.2.5. Tax relief for investment and renovation for energy efficiency purposes

A tax credit is available for investments in energy efficiency, installation and operation of renovations[153]. The tax credit can be used first in the tax year following the commissioning of the investment or renovation or, at the discretion of the taxpayer, in the tax year of the commissioning of the investment or renovation, and then in the following five tax years.[154]

Pursuant to the regulation being in force as of 27th December 2020, the tax allowance shall not be granted if the subject matter of the investment, renovation is a passenger car, with the exception of passenger cars with large cargo space[155]. The ban shall apply for the first time to investments, renovations launched after the date of entry into force of these provisions[156].

The tax credit per taxpayer and per investment and renovation may not exceed

a) 30 per cent in Budapest,
b) 45 per cent in the region of Northern Hungary, Northern Great Plain, Southern Great Plain, Southern Transdanubia, Central Transdanubia or Western Transdanubia and in the Pest region

of the present value of the eligible costs up to the equivalent of EUR 15 million in HUF.

The rate of the tax credit may be increased by 20 percentage points for aid to small enterprises and by 10 percentage points for aid to medium-sized enterprises. When calculating the above-mentioned limits, the tax relief must be taken into account together with all state aid required for investment and renovation.

The condition for using the tax relief is, among other things, that the taxpayer has a certificate that, according to a separate government decree[157], confirms that its investment or renovation serves energy efficiency purposes. The certificate must be available until the submission of the corporate tax return for the first tax year of the tax benefit.

For the same investment, the tax credit for an investment for energy efficiency purposes cannot be used in conjunction with the development tax credit.

12.2.6. Live music service tax credit

The taxpayer can take advantage of the tax credit for the consideration and fee[158] for the live music service provided at the restaurant operated by him.[159]

[153] Point 11a of Section 4 of the CIT Act.
[154] Section 22/E of the CIT Act.
[155] Point f) of Subsection 8 of Section 22/E of the CIT Act.
[156] Subsection 95 of Section 29/A of the CIT Act.
[157] Government Decree no. 176/2017 (VII.4.) on the Rules for Issuing Energy Performance Certificates.
[158] Section 22/F of the CIT Act.
[159] Point 49 of Section 4 of the CIT Act.

A live music service is a music service provided in accordance with FEOR-08 with the personal participation of a musician or singer - regularly or at a specified time, through a public performance free of charge for guests.[160]

The rate of the tax credit may not exceed 50 percent of the net fee for the live music service in the tax year. This amount constitutes de minimis aid. In the case of claiming the tax credit, the costs of the live music service are considered as unrecognized costs, therefore they must be used to increase the tax base.[161]

13. Growth tax credit (NAHI) [162]

The essence of the NAHI rebate is that eligible companies have to pay a certain part of the current year's tax, not in the current year, but in the two tax years following the current year, so they can use it for their further growth[163].

14. Establishment, declaration and payment of the tax to be paid

Based on the above, the **deduction** of corporate tax payable is as follows

	Revenues for the tax year
–	Tax year expenses, expenses
±	Profit before tax
–	Decreasing adjustment items
+	Incremental adjustment items
±	Tax base
(+)	Tax base x 9 per cent
=	Calculated corporate tax
–	Tax credit
	Tax to pay

Taxpayers applying IFRS are subject[164] to special rules.[165]

The tax payable by a **corporate income taxpayer group** in a tax year shall be divided among the group members in proportion to the individually determined positive tax bases. The group representative shall indicate the tax payable on each group member in the corporate income tax return of the group income taxpayer group and the group members shall include this amount as the tax payable in their accounts.

The amount of corporate tax assessed for the tax year must be declared by the taxpayers operating according to the calendar year by **the last day of the fifth month following the tax year[166]** in annual tax return, on declaration form no. 29. Taxpayers operating in a

[160] Point 12a of Section 4 of the CIT Act.
[161] Subsection 3 of Section 22/F and Point 3 of Part A) of Schedule 3 of the CIT Act.
[162] Section 26/A of the CIT Act.
[163] Detailed information can be found in Information Booklet 93.
[164] Chapter II/A of the CIT Act.
[165] Subsection 2 of Section 24 of the CIT Act.
[166] Point I/B/2/2.4 of Schedule 2 of the Taxation Act (ART).

business year other than the calendar year shall determine their tax liability in accordance with the rules in force on the first day of the business year.[167]

The tax is paid in the advance payment system. The taxpayer operating according to the calendar year shall pay the difference between the tax advance paid and the corporate tax established for the tax year

- **until 31 May of the year following the tax year;[168]**

- the taxpayer operating in a business year other than the calendar year shall pay the difference between the tax advance paid and the corporate tax established for the tax year **until the last day of the fifth month following the last day of the tax year**.
Taxpayers mentioned above **may claim** the difference between the tax advance paid and the corporate tax established for the tax year back from the dates referred to above.

The corporate tax liability shall be assessed and declared in HUF, but taxpayers will have the option to make the *payment* in US dollars or euros.[169] This must be reported to NTCA by the first day of the month before the first day of the tax year (taxpayers starting their activity shall do so at the time of their registration with NTCA).[170] For example, if a taxpayer reporting per calendar year wishes to pay tax in US dollars or euros from 1 January 2024, he/she must notify NTCA about this by 1 December 2023 at the latest. The deadline is statutory (i.e. a term of preclusion)[171] and, therefore, no request for verification can be made if the date is missed. The notification of the taxpayer is registered by NTCA. On the basis of the registered notification, the taxpayer fulfils its obligation to pay the advance amount of the corporate income tax, or the corporate income tax by transferring the amount to the foreign currency tax payment account held by the Treasury for this purpose, in the foreign currency corresponding to the notification.[172]

15. Establishment, declaration and payment of corporate tax advance

As a general rule, the taxpayer must **file a tax advance[173] at the same time as the annual tax return** for the 12-month period beginning on the first day of the second calendar month following the tax return (on the advance tax return sheet of Form 29).
The amount of **the tax advance**

a) the amount of tax payable in the tax year preceding the tax year, if the period of the tax year preceding the tax year was 12 months,

b) in all other cases, the amount of tax due for the tax year preceding the tax year, calculated on the basis of the calendar days of operation, for 12 months.

The tax advance must be paid monthly or quarterly. In the case of taxpayers classified in the non-agricultural and forestry sectors and fisheries, the tax advance

[167] Subsection 1a of Section 5 of the CIT Act.
[168] Point I/3/3.2.1 of Schedule 3 of ART.
[169] Section 66/A of ART.
[170] Subsection 2 of Section 66/A of ART.
[171] Subsection 6 of Section 66/A of ART.
[172] Subsection 7 of Section 66/A of ART.
[173] Section 26 of the CIT Act.

a) is due **monthly**, in equal instalments, if the tax payable in the previous tax year exceeds 5 million HUF,

b) is due **every three months**, in equal instalments, if the tax payable in the previous tax year does not exceed 5 million HUF

The amount of the tax advance is paid by the taxpayer with a monthly frequency **by the 20th day of each month**. In the case of a quarterly advance payment, the taxpayer pays the tax advance **by the 20th day of the month following the quarter**.

A special provision[174] applies to the fulfilment of the corporate tax advance obligation in cases where the taxpayer ceases to exist as a small business taxpayer (i.e. a taxpayer liable to kiva) and the taxpayer returns to the scope of the CIT Act. Such taxpayers also have the obligation to establish and declare a tax advance, which must be fulfilled within 60 days after the cessation of their tax liability as mentioned above, and to pay a tax advance on a quarterly basis in the manner specified by law.

In the first tax return after the date of the transformation, merger or division, no tax advance shall be declared to the receiving taxpayer remaining in case of separation, in case of merger, if the date of the transformation, merger or division precedes the submission of the tax return of the previous tax year.[175]

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[174] Subsection 12 and 13 of Section 26 of the CIT Act.
[175] Subsection 3a of Section 26 of the CIT Act.