Key Rules on Insurance Tax
2023

Insurance tax is a special turnover tax imposed on the insurance industry.[1] Revenue from the tax belongs to the central budget.[2]

Contents

1. Subjects of the tax, taxable persons

1.1 Subjects of the tax

The provision of insurance services – under the IT Act – shall be subject to tax, i.e.

- casco insurance
- property and accident insurance
- compulsory vehicle liability insurance

if the location of risk[3] is in Hungary[4]

Health insurance[5] and agricultural insurance[6] shall not be subject to insurance tax.

---

[1] Rules of the tax are stipulated in Act CII of 2012 on Insurance Tax (hereinafter referred to as 'the IT Act').
[2] Subsection 2 of Section 7 of IT Act.
[3] Sub-point b) of Point 62 of Subsection (1) of Section 4 of the Act LXXXVIII of 2014 on Insurance Activities (hereinafter referred to as the 'IA Act').
[4] Section 2 of the IT Act.
[5] Insurance industry under Point 2 of Part *A)* of Schedule No. 1 to the IA Act.
[6] Agricultural insurance under Act CLXVIII of 2011 on Handling Weather-Related and Other Natural Risks Affecting Agricultural Production.

Casco insurance[7]	**Property and accident insurance**[8]
Road vehicle casco insurance Damage caused to road vehicles, non-engine driven land vehicles.	Accident insurance Work-related accidents and occupational illnesses are included.
Rail vehicle casco insurance Any and all damage or loss occurred to rail vehicles.	Cargo insurance Goods, items of luggage and any other items of property are included.[9]
Aircraft casco insurance Any and all damage or loss occurred to aircrafts.	Insurance against fire and natural disasters All property damage caused by fire, explosion, thunderstorm, other natural disasters other than thunderstorm, nuclear energy, landslides, ground subsidence, earthquakes.
Watercraft (used on sea, lakes or canals) casco insurance	Other property damage[10]
	Liability insurance related to road vehicles The carrier's liability is included.
	Liability insurance related to aircrafts The carrier's liability is included.
	Liability insurance related to watercrafts used on sea, lakes, rivers or canals The carrier's liability is included

[7] Industries under Points 3 to 6 of Part A) of Schedule 1 of the IA Act.
[8] Industries under Part A) of Schedule 1 of the IA Act, with the exception of Points 3 to 5, but including complementary accident insurances belonging to life insurances.
[9] Damages occurred to goods or items of luggage transported, irrespective of the type of the vehicle of transport.
[10] E.g. damage caused by hail or frost, or damage caused by theft.

	General liability insurance[11]
	Credit insurance General insolvency, export loans, payment instalment transactions, mortgage loans, agricultural loans are included.
	Sureties and guarantees
	Insurance against various financial losses[12]
	Legal protection insurance Legal expenses and court costs[13]
	Assistance

The **risk location** (Member State of the liability in the case of insurance branches not belonging to the life insurance branch) shall be:

- the Member State in which the real estate is situated, in the case of insuring real estate and the moveable properties in them if they are covered by the same insurance policy,
- the Member State which shall be considered as the country of commitment specified in the Civil Liability Insurance Act[14], in the case of any kind of motor vehicle,
- the Member State in which the policy holder concluded the contract, irrespective of the insurance branch concerned, in the case of travel and vacation risk insurance policies with a term of maximum 4 months,

[11] For instance, liability insurance related to environmental pollution.
[12] E.g. risks related to employment, non-foreseeable business supplementary and extra costs, profit losses.
[13] Legal protection insurance is undertaking the obligation of bearing the costs of legal expenses and providing other services based on the insurance coverage against payment, especially:
- securing recovery of the damage sustained by the insured and the tort due to him will be covered through an out-of-court settlement or through civil or criminal procedure,
- the defence or representation of the insured in civil, criminal, administrative or other procedures and in case of a claim for compensation or tort required from the insured.

[14] Act LXII of 2009 on Compulsory Insurance Against Civil Liability in Respect of the Use of Motor Vehicles

- the Member State in which the permanent residence of the policy holder is located, or, if the policy holder is a legal entity, the site of this legal entity to which the contract applies, in any other cases not referred to specifically in the paragraphs above.

The obligation of compulsory vehicle liability insurance means **that all operators of motor vehicles registered in the territory of Hungary –** other than the motor vehicles exempted under specific other legislation and under specific circumstances the individual state vehicles[15] **– are required to enter into a contract with an insurance company** governed in the Civil Liability Insurance Act for obtaining coverage for any injury arising from the use of motor vehicle and to pay the premium charged in order to keep the policy in effect[16].

1.2 Taxable persons under the insurance tax

The subject of the tax is the insurer, including the Hungarian branch offices of third country insurers seated in a Member State of the European Economic Area or in a third country under the Insurance Act, and also including cross-border insurance service providers in respect of their taxable insurance activities[17].

2. The tax base and the accounting of the insurance premium

2.1 The tax base

The insurance premium shall comprise the tax base[18].

The insurance premium is
- the gross premium charged by an insurer
- for the insurance services provided and accounted for in accordance with accounting regulations,
- including the value not accounted for as gross premium according to accounting regulations, which, however, is considered as cover for insurance services in consideration for insurance services[19].

The tax base shall not include
- the gross premium charged for agricultural insurance, and

[15] The operators of motor vehicles that were exempted by the minister directing the ministry that exercises operator's rights, or by the minister exercising control or supervisory rights over the body that exercises operator's rights shall be exempt from the obligation of concluding a compulsory vehicle liability insurance contract under this Act.[Subsection (1) of Section 57/H. of the Civil Liability Insurance Act].
[16] Subsection (1) of Section 4 of the Civil Liability Insurance Act
[17] Section 3 of IT Act
[18] Point 7 of Section 1 and Section 4 of IT Act
[19] It is a feature of the so-called unit-linked life insurances, which are combined with investments, that the insurer assumes other risks in addition to the risks covered by the insurance premium (e.g. accident risk). The coverage of that is that the insurer deducts a certain amount from the savings component of the insurance, as consideration for their costs. This amount is practically insurance premium and therefore it is also part of the tax base.

- the premium income received from the portfolio of insurance policies transferred from other insurance companies for reinsurance[20], accounted for as gross premium income.

If an insurance company
- provides more than one insurance services subject to insurance tax within the framework of a single insurance relationship, or
- provides a taxable insurance service together with another insurance service (e.g. health insurance)

the insurance premium shall be the premium charged separately for each taxable insurance service.

2.2 Accounting for the insurance premium

The insurer must account for insurance premiums in accordance with Schedule 2 of the relevant government decree[21]**, the tax shall be assessed by the 20th day of the month following the accounting of the insurance premium (or premium instalment)**. Regarding the accounting of the premium the insurer has two options to choose from[22]:

a) the insurance premium income is continuously accounted for on their due date specified in the effective insurance contracts and with the expected amount on the basis of the contract. If a contract becomes no longer effective, the income already accounted for in the month of termination will be reduced with respect to the date of termination of the contract;

b) the insurance premium income is accounted for on the date of its financial realization during the insurance year. When the year is closed the insurer accounts for the income financially unrealized but due until the balance sheet day; at the same time, it terminates the income accounted for under the same title when the previous year was closed.

<u>Example:</u>

The insurer applies the provisions of Point a) when it accounts for insurances.

The client contracted for property insurance against fire and natural disasters with the insurer and the policy period lasts from 1 January 2023 until 31 December 2023. The client chose to pay premium on a quarterly basis, and duly complies with their payment obligations regarding the first two quarters on 22 January and 6 May 2023; then terminates the contract on 17 May.

[20] Reinsurance activity shall mean transferring risks assumed by an insurance company or a reinsurance company, and a third-country insurance company or reinsurance company in whole or in part, under the terms and conditions specified in a contract, for the payment of premiums [Point 112 of Paragraph (1) of Section 4 of the Insurance Act]. The premium income received from reinsurance: the fees indicated in reinsurance contracts and received from the reinsurance portfolio in compensation for the assumption of risks (see in Government Decree).

[21] Government Decree No 192/2000 (XI. 24.) on the Special Features of the Annual Reporting and Bookkeeping Obligations of Insurers (hereinafter referred to as the ‘Government Decree’).

[22] Pursuant to the provisions pertaining to the specific items of the profit and loss account in Schedule 2 to the Government Decree

In accordance with the provisions of the agreement concluded with the insurer the contract becomes ineffective on the day of the unilateral termination in such cases.

Regarding the given contract the amount of insurance premium is accounted for in January 2023 and April 2023 as an income and the amount of insurance tax is declared in January 2023 and April 2023 by the insurer.

In May 2023, the month of the termination of the contract the income accounted for the second quarter must be decreased with the amount of the period from 18 May until 30 June 2023 (the first two quarters).

In case the insurer filed his declaration concerning April 2023 due on 20 May 2023 before the decrease of the premium income, then the declaration concerning April 2023 can be modified by self-monitoring and the tax liability for the given month can be decreased.

3. Rate of the tax[23]

The IT Act provides for the application of **progressive tax rate** for casco insurances as well as property and accident insurance services, if **the consolidated tax base –** deriving from the aforementioned insurance services **– does not reach HUF 8 billion**. Based on the IT Act progressive tax rate cannot be applied in case of compulsory vehicle liability insurance services, because in this case single tax rate is applicable.

3.1 Tax rates in case of providing casco insurance, property and accident insurance services

In order to assess the tax liability, first **it shall be examined whether the consolidated tax base** deriving from providing casco insurance, property and accident insurance services **reached HUF 8 billion in the calendar year directly preceding the accounting of tax**.

If it did, the rate of tax shall be **15 percent for casco insurance**, and **10 percent for property and accident insurance** in each month of the tax liability.

If it did not reach HUF 8 billion, the rate of tax shall be

- 25% of the 15% and 10% tax rate after the portion of the tax base of the tax accounting month falling below HUF 100 million,
- 50% of the 15% and 10% tax rate after the portion of the tax base of the tax accounting month exceeding HUF 100 million HUF, but not exceeding HUF 700 million,
- 100% of the 15% and 10% tax rate after the portion of the tax base of the tax accounting month exceeding HUF 700 million.

[23] Section 5 of IT Act.

The following table summarizes the tax rates applicable to various tax bases calculated from the insurance premium deriving from providing comprehensive insurance, property and accident insurance services valid in 2023.

Type of insurance	Tax base	Tax rate
Casco insurance	insurance premium	**- 15 percent of the tax base** - for taxable persons the **consolidated tax base of which did not reach HUF 8 billion** in the calendar year directly preceding the accounting of tax, the tax rate shall be **3.75% after the portion of the tax base of the tax accounting month falling below HUF 100 million** 1) (25 percent of the 15 percent) **7.5% after the portion of the tax base of the accounting month exceeding HUF 100 million HUF, but not exceeding HUF 700 million** 2) (50 percent of the 15 percent) 3) **15%** after **the portion of the tax base of the tax accounting month exceeding HUF 700 million**
Property and accident insurance	insurance premium	**- 10 percent of the tax base** - for taxable persons the **consolidated tax base of which did not reach HUF 8 billion** in the calendar year directly preceding the accounting of tax, the tax rate shall be **2.5% after the portion of the tax base of the tax accounting month falling below HUF 100 million** 1) (25 percent of the 10 percent) **5% after the portion of the tax base of the accounting month exceeding HUF 100 million, but not exceeding HUF 700 million** 2) (50 percent of the 10 percent)

		3) **10% after the portion of the tax base of the tax accounting month exceeding HUF 700 million**

The applicable tax rates depend on two factors:

- the gross amount of insurance premium deriving from casco, property and accident insurance in the previous year
- the amount of the tax base in the month of tax settlement.

The preferential tax rates in the various tax brackets shall be applicable in the particular insurance branches in the ratio which is represented by the premiums of comprehensive, property and accident insurance services in the entire tax base of the particular month.

Example:

The insurer's consolidated tax base in tax year 2022 was HUF 4 billion.
The tax base in February 2023 is HUF 570 million, HUF 360 million of which was generated from comprehensive insurance policies and HUF 210 million was generated from property insurance policies.
Since the consolidated tax base was less than HUF 8 billion in the previous year, the progressive tax rates, which are more favourable than the main rule, may be applied to the February tax base.

Since 12/19th part (360/570) of the tax base was generated from casco insurance policies and 7/19th part (210/570) was generated from property insurance policies, the same proportions are applicable to the part of the tax rate which does not exceed HUF 100 million (therefore, HUF 63.16 million of the premium income from casco insurance policies and HUF 36.84 million from property insurance policies belong to this tax bracket).

The amount of tax payable shall be (63.16 million x 3.75%) 2.37 million, and (36.84 x 2.5%) 0.92 HUF million, that is a total of HUF 3.29 million.

HUF 470 million fall into the next tax bracket, out of which the share of premium income from casco insurance is HUF 296.84 million (360 million – 63.16 million), and the premium income from property insurance is (210 million – 36.84 million) HUF 173.16 million.

The amount of tax payable on the middle bracket on the premium income from casco insurance policies is (296.84 million x 7.5%) HUF 22.26 million, and from property insurances (173.16 million x 5%) HUF 8.66 million.
The total amount of insurance tax on the taxable premium income in February 2023 is (3.29 million + 22.26 million + 8.66 million) HUF 34.21 million.

3.2 Tax rates in case of providing compulsory vehicle liability insurance services

The tax rate – regardless the amount of incomes from premium accounted in the calendar year preceding the month of accounting tax – is 23% of the tax base but a maximum of HUF 83 per motor vehicle daily on every calendar day of the period of risk coverage of the insurance company.

The risk-bearing of the insurer does not cover the margin period according to the Civil Liability Insurance Act in lack of remuneration – except the period of intermission – therefore the limit of HUF 83 does not apply to this period when determining the tax rate.

4. Tax assessment

The tax on the premium payments and instalments shall be assessed, declared on Form No. 2320 provided for this purpose by the state tax authority **and paid** by insurers **by the 20th day of the month following the accounting month of the premium payments and instalments,** that is, until 20 February 2023 the earliest.

The form can only be submitted electronically.

The form filling program of the tax return running in ÁNYK (i.e. general form filling program) and the accompanying instructions are available at:

- https://nav.gov.hu/nyomtatvanyok/letoltesek/nyomtatvanykitolto-programok-kereso → Részletes keresés (Detailed search)

The Web based form filling program (i.e. WebNYK) of the tax return and the accompanying instructions are available at:

- www.nav.gov.hu → Online Nyomtatványkitöltő Alkalmazás (ONYA) (Online Form Filling Application)

Administrative and statutory tasks related to insurance tax shall be performed by the National Tax and Customs Administration (NTCA). Insurance tax shall be paid into **NTCA insurance tax revenue account** no. **10032000-01076318-00000000** (tax type code: 200).

5. Rules for the supplementary insurance tax

For the period from 1 January 2023 to 31 December 2023, the insurer under the IT Act must pay an additional insurance tax (hereinafter referred to as "supplementary tax")[24]

The NTCA, as an authority, is responsible for the tasks related to the supplementary tax. Revenue from the supplementary tax is revenue of the central subsystem (central budget) of the general budget of the government.

[24] Within the meaning of Section 16 of Government Decree 197/2022 (VI.4.) on Extra-profit Taxes.

5.1 Base and rate of the supplementary tax

The tax is based on the amount of the insurance premiums as defined in the IT Act derived from the provision of

- insurance services under the *IT Act* (hereinafter referred to as the first tax base part) and
- insurance services falling within the insurance business listed in Annex 2 to the *Act of Businesses of Insurance* (hereinafter referred to as the second tax base part),

On this basis, the first tax base part of the supplementary tax base includes *casco insurance, property and accident insurance and compulsory vehicle third party liability insurance*.

The second tax base part of the supplementary tax base includes *life insurance activities* stipulated in point 1 (except for points 2 and 3), *capital redemption operations* (insurance savings arrangements) as per point 4, *group pension funds* as per point 5 and *transactions relating to the length of human life* as contained in point 6 of Annex 2 to the Act of Businesses of Insurance.

The supplementary tax rate for the tax base generated **between 1 January 2023 and 31 December 2023** is as follows:

a) **first tax base**

aa) 2 per cent on the part not exceeding HUF 2 billion,
ab) 4 percent on the part exceeding HUF 2 billion but not exceeding HUF 36 billion,
ac) 12 percent on the part exceeding HUF 36 billion, and

b) **second tax base part**

ba) 1 per cent on the part not exceeding HUF 2 billion,
bb) 1,5 percent on the part exceeding HUF 2 billion but not exceeding HUF 36 billion,
bc) 5 percent on the part exceeding HUF 36 billion.

5.2 Assessment, declaration and payment of the supplementary tax

The tax of taxable persons that are affiliated[25] shall be assessed

- by adding together their tax bases, and
- apportioning the amount calculated on the basis of the result at the tax rate under point 5.1 among each taxable person in the same proportion as the tax base they have achieved bears to the total tax base achieved by all taxable persons that are affiliated.

[25] Taxable persons classified as affiliated enterprises pursuant to sub-points a) to f) of point 23 of Section 4 of Act LXXXI of 1996 on Corporate Tax and Dividend Tax.

The above provision shall apply

- if the affiliated business relationship was established by a division or a spin-off after 1 June 2022, or
- if the legal entity carrying out taxable insurance activities after 1 June 2022 has transferred or made available its assets enabling such activities after 1 June 2022 to another insurer in an affiliated business relationship.

The rule for affiliated taxpayers does not apply if the taxpayer proves that the above transactions (division, spin-off, transfer of assets for use or final transfer of assets) were not carried out for avoiding tax liability but for purely economic reasons.

The settlement tax return of the supplementary tax for 2023 shall be submitted by 30 January 2024 on form no. 2320.

5.3 Supplementary tax advance

The insurer shall assess, pay and declare a supplementary tax advance by 31 May 2023 on form no. 2320.

The amount of the supplementary tax advance to be declared by the date mentioned is equal to the amount of the supplementary tax for the tax year of 2022, declared by 31 January 2023. When assessing the amount of the supplementary tax for the tax year of 2022, the taxpayer did not have to take into account the tax rates under point 5.1, but the following ones (these rates shall therefore also apply to the assessment of the supplementary tax advance for the tax year of 2023):

a) **first tax base**

aa) 4 per cent on the part not exceeding HUF 1 billion,
ab) 8 percent on the part exceeding HUF 1 billion but not exceeding HUF 18 billion,
ac) 14 percent on the part exceeding HUF 18 billion, and

b) **second tax base part**

ba) 2 per cent on the part not exceeding HUF 1 billion,
bb) 3 percent on the part exceeding HUF 1 billion but not exceeding HUF 18 billion,
bc) 6 percent on the part exceeding HUF 18 billion.

If the amount of the supplementary tax advance paid is more than the amount of the supplementary tax due and declared, the taxpayer can claim the difference from the date of filing the supplementary tax return under the tax refund rules of Act CL of 2017 on the Rules of Taxation.

The amount of the supplementary tax shall be paid to the NTCA public finance account no. **10032000-01076318-00000000**.

National Tax and Customs Administration