

## Itemised tax for small taxpayers

2023

In this Information Booklet, you can read about the rules for the small taxpayers' itemised lump-sum tax, i.e. "KATA".<sup>1</sup>

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<sup>1</sup> Act XIII of 2022 on the Small Taxpayers' Itemised Lump-Sum Tax (hereinafter: KATA Act). Rules of the Act are applicable from 1 September 2022.

## 1. Who can choose the KATA tax regime?<sup>2</sup>

A **self-employed person whose main occupation** is registered as a **sole proprietor** under the Evectv.<sup>3</sup> can opt for KATA in connection with the activities recorded there.

A self-employed person is not considered as someone with a **main occupation** if, on each day of the reference month

- is in a labour relationship for at least 36 hours per week (the working hours required in concurrent employment are added together),
- carries out an auxiliary activity under the Tbj.<sup>4</sup>,
- is considered to be insured abroad under the EU Regulations on the coordination and enforcement of social security systems,<sup>5</sup>
- is insured in another state under a bilateral social policy and social security agreement,
- is an individual who was entitled to a group I, II or III group invalidity pension or accidental invalidity pension on 31 December 2011<sup>6</sup> and is in receipt of invalidity benefit or rehabilitation benefit,<sup>7</sup>
- is in receipt of disability benefit and has a health condition of 50% or less, as assessed by the complex assessment of the rehabilitation authority,
- is a partner in a business other than a sole proprietorship who does not carry out an ancillary activity in any business other than his activity as a small taxpayer,
- a self-employed person who is not engaged in an ancillary activity other than self-employment as a small taxpayer, who is not registered under the Evectv. and is a freelancer within the meaning of the Evectv.<sup>8</sup> (e.g. a freelance lawyer, notary public),
- is employed as a foster parent,<sup>9</sup>
- is in full-time education in a public education institution, a vocational training institution or an institution of higher education, in a Member State of the European Economic Area or in Switzerland, in a secondary or higher education institution, or is pursuing studies equivalent to those in a State not mentioned above, provided that any small taxpayer who is on a break from his studies is also included in this definition until the age of 25.

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<sup>2</sup> Section 1 (1), Section 2 (1) and (2), Section 3 of the KATA Act.

<sup>3</sup> Act CXV of 2009 on Sole Entrepreneurs and Sole Proprietorships (hereinafter: Evectv.)

<sup>4</sup> Act CXXII of 2019 on the persons entitled to social security benefits and on the coverage of these benefits (hereinafter: Tbj.)

<sup>5</sup> Any person insured under EU regulations must hold an A1 certificate.

<sup>6</sup> Benefits established based on the provisions of Act LXXXI of 1997 on the Eligibility for Social Security Benefits and Private Pensions (hereinafter: Tny.) in force until 31 December 2011.

<sup>7</sup> Pursuant to Sections 32-33 of Act CXCI of 2011 on Benefits for Persons with Disabled Work Ability and amending certain Acts.

<sup>8</sup> Act CXVII of 1995 on Personal Income Tax (hereinafter: Szja tv.).

<sup>9</sup> Chapter VII of Act XXXI of 1997 on the Protection of Children and the Administration of Guardianship.

### Considered as someone pursuing an auxiliary activity:

- a self-employed pensioner who is employed with earnings subject to compulsory insurance, and
- a person in receipt of a widow's pension who has reached the pensionable age and is self-employed or in a business partnership, even if the payment of his pension based on own eligibility or a survivor's pension.<sup>10</sup>

### Any private individual is a pensioner in his own right, who:

- receives an old-age pension of his own right, an old-age pension established by a state covered by a convention on social security, an old-age or disability pension paid on the basis of a government decree on benefits paid by the Hungarian Artists' Public Foundation, a pension or an old-age or disability pension from a religious legal person, or
- is receiving an old-age pension of his own right under the EU Regulations on the coordination and implementation of social security schemes or the legislation of an EEA State, even if the pension is suspended.<sup>11</sup>

So, for example, if a self-employed person is employed for 40 hours a week every day of the month, he is not considered to be in full-time employment and cannot opt for KATA.

### Who cannot choose the KATA tax regime?<sup>12</sup>

A sole proprietor who is self-employed in a full-time capacity and:

- whose tax number **has been cancelled** by the National Tax and Customs Administration (NTCA) **in the year of filing or in the 12 months preceding the year of filing**, or who is subject to **a tax number cancellation at the time of filing**,
- who, in the year when choosing the tax category, earned income from an activity classified under the classification 68.20 Renting and operating of own or leased real estate, as defined in the ÖVTJ<sup>13</sup>.

## 2. When and how to choose KATA?<sup>14</sup>

### When can I choose the KATA tax regime?

#### Individual entrepreneurs already in business

Existing self-employed persons can opt for KATA during the year if they meet the conditions. The taxable entity is established on the first day of the month following the declaration of the election.

<sup>10</sup> Sections of 4. (11) and (6) of the Tbj.

<sup>11</sup> Section 4 (17) of the Tbj.

<sup>12</sup> Sections 4(4)-(5) of the KATA Act.

<sup>13</sup> List of activities of self-employed persons ([https://www.ksh.hu/ovtj\\_menu](https://www.ksh.hu/ovtj_menu)).

<sup>14</sup> Section 4 (1)-(2) of the KATA Act.

### Starting self-employment

A self-employed person who starts his activity during the year can notify his choice of KATA at the same time as registering with the NTCA. In this case, taxable entity is established from the date of registration of the self-employed person.

### How to choose KATA?

#### How to declare

- A self-employed person starting his activity during the year can register his choice of KATA with the NTCA, which keeps the register of self-employed persons, when starting his activity, via the Web Help.<sup>15</sup>
- **An already established self-employed person** can declare his choice on the **'T101E declaration form**

The 'T101E form can be most easily completed by using the appropriate menu item of the Online Form Filling Application (ONYA) (<https://onva.NTCA.gov.hu/#!/login>).

### What data must be reported?<sup>16</sup>

At the same time as declaring the choice of KATA status, the self-employed person **must declare** his

- name
- address,
- tax number and
- social security number.

### Notification of changes

If there is a change in the declared data of a self-employed small taxpayer, **the change must be reported to the NTCA within 15 days.**

### The NTCA's obligation to provide information<sup>17</sup>

After the notification, the NTCA will send a notification letter informing the self-employed person that he has been registered as a small taxpayer.

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<sup>15</sup> <https://www.nyilvantarto.hu/ugyseged/>

<sup>16</sup> Katv. Section 7 (1)

<sup>17</sup> Section 4 (6) of the Kata Act.

The information sheet includes:

- the name, address and tax number of the small taxpayer,
- the starting date of the tax liability,
- the amount of the specific tax payable, the due date and the invoice number,
- a brief explanation of the tax liability regarding KATA.

### 3. Termination of the KATA tax liability<sup>18</sup>

KATA can be terminated by law or by a decision of NTCA.

#### **KATA tax liability ceases to exist by operation of law if:**

- the self-employed person announces that in the future he will not fulfil his tax obligations according to the rules of the KATA Act - in this case, the last day of the month of the announcement,
- the self-employed status of the small taxpayer ceases - then from the date of cessation.

#### **The NTCA will issue a decision on the termination of KATA tax liability:**

- on the last day of the month in which the decision on the termination of tax liability becomes final, if the NTCA has charged the small taxpayer self-employed person for an infringement committed during the period of tax liability
  - for failure to provide an invoice or receipt,
  - for employing an undeclared worker, or
  - for marketing goods of uncertified origin  
imposing a default fine, an excise duty fine;
- on the last day of the month in which the decision on the termination of tax liability becomes final, if the NTCA deletes the tax identification number of the small taxpayer self-employed person by a final decision during the period of tax liability;
- on the last day of the month in which the decision on the termination of KATA status becomes final, if the tax debt of the small taxpayer self-employed person registered with the NTCA, calculated on an enforceable net basis, exceeds HUF 100 thousand on the last day of the calendar year. The NTCA will revoke the decision to terminate the KATA status if the small taxpayer pays the full amount of tax owed by the time the decision to terminate the KATA status becomes final;
- in the case of the acquisition of income from the letting of immovable property, the day preceding the acquisition of the income;
- the day before the income is earned, if the self-employed small taxpayer earns income from a payer under Art. (including foreign payers<sup>19</sup>) It does not result in the

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<sup>18</sup> Section 5 of the KATA Act

<sup>19</sup> According to Section 2(7) of the KATA Act, a foreign payer is a legal entity or other organisation with foreign residence.

cessation of the KATA tax liability if the income of the small taxable self-employed from the payer is derived from the transport of passengers by taxi according to TESZOR 49.32.11, and if it is interest credited to the payment account.

By way of derogation from the last point of the preceding list, under the emergency rules<sup>20</sup>, KATA tax liability (KATA status) ceases, if the sole proprietor under the KATA regime receives income from a payer defined in ART (including foreign payers) as consideration for the supply of goods or services. Income from the transport of passengers by taxi under TESZOR 49.32.11 is however excluded. The date of cessation of the KATA status is the day before the income is received.<sup>21</sup>

**A self-employed small taxpayer must report** the date of acquisition of income to the NTCA within 15 days of the acquisition of income if he

- **earns income from property rental activities, or**
- **receives income from a payer (including a foreign payer) under Art.** An exception is made if the income of the self-employed small taxable person is derived from the transport of passengers by taxi according to TESZOR 49.32.11 or it is interest credited to the payment account.

Under the emergency rules, the KATA status shall cease on the last day of the month during the whole of which the sole proprietor in his/her status as such ceases to be regarded as having a main occupation for any of the reasons listed in point 1.<sup>22</sup>

The small taxpayer must report this change to the NTCA by the 15th day of the month following the month in which the change occurred.<sup>23</sup>

If the small taxpayer fails to make this notification or incorrectly indicates the date of termination of the KATA tax status in the notification, the NTCA will issue a decision on the termination of the tax status.<sup>24</sup>

**For the year of termination of the KATA tax liability and the following 12 months, the new KATA cannot be chosen again.**

<sup>20</sup> Section 1 (1) of Government Decree No 441/2022 (XI. 7.) amending Government Decree No 197/2022 (VI. 4.) on Certain Rules concerning the Public Liability of Sole Proprietors and on Extra-Profit Taxes in connection with the Public Health Product Tax (hereinafter: Government Decree).

<sup>21</sup> Pursuant to Article 4 (1) of the Government Decree, the amended rule shall apply for the first time to revenue accruing from 1 November 2022.

<sup>22</sup> Points (a)-(j) of Section 2 (2) of the KATA Act contains the circumstances, if they exist for the whole of a given month, in which a sole proprietor is not considered to be in main occupation.

<sup>23</sup> Section 1 (3) of the Government Decree. The notification had to be made for the first time under Section 1 (4) of the Government Decree in cases where the sole proprietor was not considered to be in his/her main occupation in the month of November 2022.

<sup>24</sup> Section 1 (4) of the Government Decree.

## 4. Tax liabilities related to the KATA regime

The KATA system distinguishes between two types of tax:

- itemised tax,
- a tax of 40 per cent on small taxable persons, depending on the amount of their annual income.

### 4.1 Itemised tax<sup>25</sup>

The self-employed small taxpayer must pay **HUF 50 thousand per month in itemised tax**.

The full amount of the itemised tax is payable **for each period of the tax liability**, which has begun **for the given calendar month**. No prorating of the itemised tax is possible.

The **small taxable person** must pay the **itemised tax** by the 12th day of the month following the month in question to the NTCA Small Taxpayers' Itemised Lump-Sum Tax Revenue Account (account number 10032000-01076349).

### Exemption from itemised taxation<sup>26</sup>

**It is not required to pay** the HUF 50,000 monthly itemised tax for the self-employed small taxpayer for the months which, for the whole of the month, the taxpayer

- a) receives sickness benefit, accident allowance, infant care allowance, adoption allowance, child raising support, childcare allowance, childcare assistance, childcare benefit, care allowance,
- b) is a volunteer soldier in the military reserve,
- c) is a detainee,
- d) has ceased his self-employed activity,

unless he carries out an activity that is taxable under the KATA Act, in particular if he earns income during this period. For example, if a self-employed small taxpayer working as a hairdresser receives sick pay in a given month, and during this period his employee receives guests who have appointment for that month, which results in income, the small taxpayer must pay the itemised tax in that month.

**It is not required to pay** by the self-employed small taxpayer the HUF 50,000 monthly itemised tax for the month in which the circumstance giving rise to the exemption under points (a) to (c) ceases to exist, if **this condition has existed for at least 30 days**.

For the purposes of calculating the 30 days, the period for which the small taxpayer is not required to pay the tax for the above reasons should be disregarded.

Every month, by the 12th day of the month following the month in question, the **self-**

<sup>25</sup> Section 7 (1)-(3) of the KATA Act

<sup>26</sup> Section 7 (8)-(9) of the KATA Act

**employed small taxpayer** must declare to the NTCA if he does not have to pay itemised tax for the month concerned.

The self-employed small taxpayer does not have to make a declaration when exempted due to a cessation of entrepreneurial activity, in which case the NTCA will amend the obligation based on the available data.

However, a self-employed person who is a small taxpayer must declare if he carries out an activity that is taxable under the KATA Act during the period of the suspension of entrepreneurial activity, in particular if he earns income during this period. This notification must be made by the 12th day of the month following the month in question.

*Example:*

*The self-employed small taxpayer will receive sick pay from 17 January 2023 to 21 March 2023. He/She will have to pay the itemised tax for the month of January, he/she will not have to pay it for the month of February, because he/she was on sick leave for the whole month, and he/she will not have to pay it for the month of March, because the sick leave period is 15 days in January and 21 days in March, which together exceed 30 days. If this small taxpayer were on sick leave from 17 January 2023 to 20 February 2023, he/she would not be exempt for the month of January, but would not have to pay the specific tax for the month of February.*

### **Public charges paid through the itemised tax<sup>27</sup>**

In connection with his/her economic activity, a self-employed small taxpayer is **exempt from assessing, declaring and paying:**

- the tax on entrepreneurial personal income tax and entrepreneurial dividend base or flat-rate tax;
- personal income tax and social security contributions payable on his own account<sup>28</sup>
- social contribution tax.

A self-employed small taxpayer is not exempted from tax and contribution payment and declaration obligations on the income received by the individuals employed by him.

### **4.2 The special tax rate of 40 percent<sup>29</sup>**

A sole proprietor who is a small taxpayer is liable to pay a special tax of 40% on the part of his/her income received as small taxpayer that exceeds the HUF 18 million limit in the calendar year, if the itemised tax is payable for each month of the calendar year. If the sole proprietor small taxpayer does not have to pay the itemised tax for each month of the calendar year, the 40 percent special tax is payable based on the excess amount of his/her income earned

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<sup>27</sup> Section 8 of the KATA Act

<sup>28</sup> Pursuant to Section 38 (2) of the Tbj., the public tax payment due from a declared small taxpayer, which also triggers the obligation to pay social security contributions, must be made in accordance with the provisions of the KATA Act.

<sup>29</sup> Section 7 (4-5) of the KATA Act.



- during the effective months in his/her small taxpayer status subject to the specific tax liability and
- one twelfth of the HUF 18 million limit, i.e. HUF 1.5 million.

*Example:*

*The sole proprietor working full time will be subject to the KATA regime from 1 March 2023 and will earn HUF 17 million by the end of the year. If he/she has to pay the itemised tax every month until the end of the year, then, given that his income exceeds HUF 15 million (10 months x HUF 1.5 million), he/she will have to pay a special tax of 40 percent on HUF 2 million.*

The rules on the income of small taxpayers and the time at which the income is earned are set out in Chapter 6.

The payment of the 40 percent special tax does not exempt small taxpayers from paying the specific tax.

The 40 percent special tax must be paid and declared by 25 February of the year following the tax year on the 'KATA' form, which can also be submitted in the ONYA on the NTCA website. Available at: <https://onva.NTCA.gov.hu/#!/login>

If the tax liability ceases during the year, the 40 per cent special tax must be paid within 30 days of the date of cessation of tax liability and declared by the same date, together with the return of income, on the 'KATA' form.<sup>30</sup>

## **5. Benefits and income of the small taxpayer<sup>31</sup>**

### **Benefits to which the small taxpayer is entitled**

- The small taxpayer is considered insured for the duration of this status;<sup>32</sup>
- the small taxpayer's insurance is suspended in the month in which the itemised tax is not payable because he is suspending his self-employed activity, unless the small taxpayer carries out an activity included in the activity of a small taxpayer in that month and pays the HUF 50,000 monthly itemised tax in respect of that activity;
- he may be entitled to all social security and job-seeker's benefits (e.g. pension, job-seeker's allowance);
- the basis for calculating benefits is HUF 108 000 per month.

### **The income of a small taxpayer**

<sup>30</sup> You do not have to declare the specific tax, as it is automatically "imposed" on your tax account when you register.

<sup>31</sup> Section 9 of the KATA Act

<sup>32</sup> Pursuant to Section 6 (1) i) of the Tbj., a person who has been registered as an insured person under the KATA Act is also considered insured for the purposes of the Tbj.

The income of a small taxpayer is considered to be 60 percent of the income of the small taxpayer as declared in his last declaration of income received.<sup>33</sup>

## **6. Income of the small taxpayer<sup>34</sup> and the date on which the income was earned<sup>35</sup>**

### **It is considered as revenue:**

- the value of assets acquired by a self-employed small taxpayer from another person in connection with his business activity, in whatever form and whatever the title,
- any support received for carrying out the activity, and
- income also taxable abroad, and
- the amount which the taxable person has not yet acquired by the date on which he ceases to be a taxable person, on the basis of the certificate issued by him.

Income in foreign currency is converted into HUF based on the official exchange rate of the Magyar Nemzeti Bank (MNB) prevailing at the time the income is earned; for foreign currencies not listed on the MNB's official exchange rate sheet, the conversion rate is the rate published by the MNB in euros.

### **Not considered as revenue:**

- any VAT passed on;
- any tax refunded, including in particular the tax refunded under the Act on Social Contribution<sup>36</sup> tax refund under Section 17/A;
- any material value which the taxpayer is obliged to return, in particular loans or credits received;
- any material value previously transferred by the taxpayer when it is returned to the taxpayer not as consideration, including in particular the amount repaid on any loan or credit granted, but excluding in particular interest received on the loan or credit granted, but if the taxpayer is liable to pay only part of the arm's length price, the part of the arm's length price exceeding the liability to pay is treated as income;
- any material value for which the taxpayer is liable to pay the arm's length price at the date of the acquisition of the legal relationship giving rise to the acquisition;
- non-income compensation, indemnity, compensation for damage to or destruction of property used in the taxpayer's business (economic) activity, received from the tortfeasor, his liability insurer or a third party in connection with the damage, and compensation for damage from acts of God received from the taxpayer's insurer;
- any aid paid to cover costs or for development;
- the consideration received for the sale of tangible and intangible assets not exclusively for business purposes. If a small taxpayer self-employed person

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<sup>33</sup> On 1 January 2023, the monthly minimum wage is HUF 232 000.

<sup>34</sup> Section 2 (4) of the Kata Act.

<sup>35</sup> Section 2 (5) of the Kata Act.

<sup>36</sup> Act LII of 2018 on Social Contribution Tax

disposes of movable property, real estate or rights representing material value which he has not used exclusively for business purposes, he must apply the provisions of the Income Tax Act on the taxation of income from the transfer of movable property, real estate or rights representing material value to the taxation of the income from the transfer of such property, real estate or rights representing material value in its entirety.

Pursuant to the law or under an international agreement, such **aid to cover costs or for development** is considered to be any aid provided for covering costs or for development purposes:

- which the taxpayer receives only on the basis of the obligation to account to the payer for the certified expenditure actually incurred or after verification that the activity has been carried out,
- and aid co-financed by the European Agricultural Fund for Rural Development for the setting-up of young farmers, the establishment of holdings and the development of small farms.

**Tangible and intangible fixed assets used exclusively for business purposes** include tangible and intangible assets that are used by the self-employed small taxpayer for his business activity, are not used in part for any other purpose and are clearly supported by his business records, with the condition that cars and arable land are not considered to be tangible assets exclusively for business purposes.<sup>37</sup>

### **Date of acquisition of the revenue**

- in the case of money, goods, securities, bills of exchange, cheques and other similar instruments, the date of receipt or the date of crediting of the account;
- in the case of a service used, the date on which the supplier or recipient of the service becomes or would become liable to pay tax in accordance with the provisions of the VAT Act<sup>38</sup>;
- for a right, the date from which the taxpayer is entitled to exercise, transfer, assign or terminate the right;
- for debt forgiven and debt assumed, the date on which the taxpayer's liability or debt ceases;
- the date on which the taxable person ceases to be a taxable person, if the taxable person has not received the consideration for the documentary evidence issued by him by the last day of his tax liability.

### **Declaration of income**

**By 25 February** of the following tax year small taxpayers must declare to the NTCA the income earned during the tax year. If a small taxpayer ceases to be a taxable person during the year, the declaration must be made within 30 days of the date of cessation. The declaration can be completed using the 'KATA form. The declaration constitutes a tax return from the consideration of legal consequences.

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<sup>37</sup> Section 2 (8) of the Kata Act.

<sup>38</sup> Act CXXVII of 2007 on Value Added Tax (hereinafter: VAT Act).

The 'KATA declaration can also be submitted in ONYA, available on the NTCA website. Available at: <https://onva.NTCA.gov.hu/#!/login>

## 7. Obligation to provide evidence and keep records<sup>39</sup>

A self-employed small taxpayer must keep a permanent, verifiable record of income in chronological order.

Data content of the revenue records:

- serial number;
- the serial number of the document;
- the amount of income;
- date of acquisition of the revenue.

The obligation to keep records of receipts is fulfilled if the small taxpayer entrepreneur keeps all the receipts and invoices issued by him, provided that the date of receipt of the receipts can be established from these documents.

The small taxpayer entrepreneur must keep the documentary evidence and the records until the end of the 5th calendar year following the tax year of issue. This obligation also applies to any incorrect copy of the documentary evidence.

## 8. Transition rules

### 8.1. Transition from the personal income tax to the itemised tax for small taxpayers

#### **Income relating to the period before the election of the tax category**

When choosing the KATA regime, any consideration for which the date of receipt of the invoice is earlier than the starting date of tax liability is considered to be income earned on the day before the starting date of tax liability. This rule applies to those who have applied the rules for the assessment of entrepreneurial personal income tax and also to those who have assessed their income as a lump sum.

#### **Expenditure relating to the period before the election of the tax category**

Expenditure incurred during the period of the KATA status for the period prior to the election of the KATA status may be accounted for by the small taxpayer as if it had been incurred on the day before the start date of the KATA status.

#### **Inventory of stocks**

A self-employed person who applies the entrepreneurial income tax system is obliged to assess his income from stocks in the tax year of registration under the KATA regime according to the provisions of the Income Tax Act on the termination of self-employment.

The taxpayer must continue to record the income from existing stocks as non-taxable income as long as long as it meets his tax liability under the KATA rules or applies the flat-

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<sup>39</sup> Section 11 of the KATA Act

rate taxation under the Income Tax Act.<sup>40</sup>

If the self-employed small taxpayer ceases his activity, his income will be increased by the amount determined in the tax year in which the KATA status was declared, as described above.<sup>41</sup>

### **Monitoring benefits**

If the taxpayer has claimed a small business allowance, small business tax allowance, development reserve or employment allowance in accordance with the Income Tax Act, the rules on the final application of the allowances apply to the taxpayer during the period of the taxpayer's KATA status.

The tax year completed as KATA taxpayer must be taken into account for any income-reducing benefits and tax relief that the taxpayer may claim in a certain number of tax years under the provisions of the Income Tax Act.

## **8.2 Transition from the scope of the itemised tax for small taxpayers to the scope of the Income Tax Act**<sup>42</sup>

If the self-employed small taxpayer withdraws from the scope of the KATA, he will be brought back under the scope of the Income Tax Act.

When notifying the termination of his tax liability, the self-employed person shall at the same time **also notify the application of the flat-rate tax provisions**, if the conditions are met.

When moving to the scope of the Income Tax Act, the taxpayer must

- draw up an inventory of all the assets which he will use in the course of his business activity, as at the first day of the first tax year following the tax year in which he ceases his tax liability;
- for intangible and tangible assets acquired under the KATA status, except where the right to engage in self-employment ceases due to the establishment of a sole proprietorship or a one-person limited liability company, the depreciation expense must be calculated in consideration of the value, as investment costs, shown on the documentary evidence issued by the other person when determining income;<sup>43 44</sup>
- the tax year completed as a small taxpayer shall be taken into account for the period for which the carryforward of the accrued losses from the preceding period is to be recognised, and out of the total remaining accrued losses from the period before the small taxpayer tax liability 20% per cent, or the pro rata temporis part of the period of the tax liability concerned shall be deemed recognised.

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<sup>40</sup> This rule does not apply to a sole proprietor who assesses his income on a flat-rate basis, because he had to act in the same way when electing the flat-rate tax, i.e. he had to take stock into account when electing the flat-rate tax.

<sup>41</sup> Section 12 (2) of the KATA Act.

<sup>42</sup> Section 12 (5)-(10) of the KATA Act

<sup>43</sup> The same applies if he acquired the intangible property or tangible asset during the period of tax liability under the small taxpayers' itemised lump-sum tax and then opted for the tax liability under the KATA.

<sup>44</sup> This does not include non-material goods, tangible assets acquired during the period of the KATA tax liability.

For personal income tax purposes, **the following items shall be considered as expense:**

- all expenses incurred during the tax year as a small taxpayer, which otherwise qualify as expenses under the Income Tax Act (allowances);
- the part in excess of the investment cost recognised in the record in accordance with the Income Tax Act, for the last year of the preceding year when the earlier KATA liability was created, if the taxpayer applied the small taxpayers' itemised lump-sum tax (old KATA system) before the KATA regime, or at the time when the small taxpayer tax liability ceases, then the excess of the investment costs of the **intangible and tangible fixed assets recorded in the inventory**<sup>40</sup>.
- The pro rata temporis **depreciation of intangible and tangible assets** for the tax year closed as the subject of the KATA liability in accordance with the Income Tax Act (regardless of the date of acquisition).

When assessing income, the self-employed person shall **not take into account as an expense** :

- the small taxpayers' itemised lump-sum tax and the 40 per cent tax for the period prior to the transition to personal income tax for entrepreneurs and the flat-rate tax, and the itemised lump-sum tax and the 40 per cent special tax paid by small taxpayers.<sup>45</sup>

## 9. Miscellaneous rules

### 9.1 Self-employed small taxpayer activity and self-employed primary agricultural producer activity

If the small taxpayer also carries out an agricultural activity as a primary producer during the tax year, then he

- must share the costs of both activities in proportion to the revenue;
- may apply flat-rate taxation to his own-account activities, provided he is entitled to do so.

### 9.2 Continuation of the activity as a self-employed small taxpayer as a widow or heir

If a self-employed small taxpayer dies and his widow or heir continues his activity after his death, the widow or heir may notify the NTCA within 90 days that she wishes to continue his activity under the KATA regime.<sup>46</sup> The NTCA will impose the tax payable based on the declaration, with the proviso that no late payment penalty may be charged for the period prior to the declaration.

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<sup>45</sup> Chapter IV, point 8 of Annex 11 of the Income Tax Act.

<sup>46</sup> Section 12 (11) of the KATA Act. For the purposes of this rule, a deceased self-employed and a self-employed who is carrying on the self-employed activity of the deceased person shall be treated as one taxable entity.