



FINACONT TAX NEWSLETTER

Changes in the small taxpayers' itemized lump sum tax and in SME corporate tax



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SME Corporate Tax

Amendments to SME Corporate Tax (KIVA) contain mainly clarifying provisions on the obligation of **financial statement preparation** and **writing off losses**.

Financial statement preparation obligation

According to the clarifying provision related to the FS preparation obligation a **separate financial year** starts with the date of the establishment of a SME corporate tax status, i.e. the law clarifies that two financial statements need to be prepared and published if taxpayer changes tax status in mid-year.

Similar rules apply to cases when the taxpayer's **SME corporate taxpayer status ceases to exist**: a separate financial year ends with the date of termination which will be the balance sheet date.

Writing off losses

Rules of writing off losses apply only to SME corporate taxpayers who **were SME corporate taxpayers before 2017 and had losses before 2017**. According to new rules **adjusted cash-flow based loss** generated in tax years before 2017 and not recognized as a SME corporate tax base reducing item **can be considered as loss carryforward**.

Small taxpayers' itemized lump sum tax (KATA)

Amendments primarily **help to resolve law interpretation problems**, but one of more important changes is that **full-time students are no longer qualified as full-time small taxpayers and law firms can also choose** small taxpayers' itemized lump sum taxation.

Termination of KATA tax status

According to the modification being in effect from 20 July 2017 KATA tax status will be terminated **on the date when the decree suspending or deleting the default penalty or the application of tax number becomes final.**

Another change also in effect from 20 July 2017 is that a private individual may re-opt for KATA tax status **in December of the tax year following the year of termination**, so the KATA tax status may be restored (for a full tax year) on 1 January of the next year.

Full-time students are not full-time small taxpayers

There are more exceptions from full-time small taxpayer status from 1 January 2018: from this date **full-time students who are also private entrepreneurs** are no longer considered as full-time small taxpayers, therefore, they will be required to pay only a lower amount of HUF 25,000 itemized tax per month.

Changes in the benefit base of full-time taxpayers

For taxpayers choosing KATA the base of benefits that full-time KATA taxpayer is eligible for is modified in line with change of social contribution tax. **If a monthly itemized tax amount of HUF 50,000 is paid, the benefit base will increase to HUF 94,400 in 2018 from the current (effective in 2017) HUF 90,000.** In the case of taxpayers who choose to pay higher itemized tax amounts, the benefit base of full-time small taxpayers **increases from the current HUF 150,000 to HUF 158,400 in 2018.** This benefit base should be taken into account when **the amount of**

the pension or sickness benefit is determined.

Paying tax debts

An important change is that paying tax debts may change the termination of taxpayer status. Accordingly, KATA tax status shall not be terminated if the small taxpayer **pays its tax debt until the decree on the termination of taxpayer status** becomes final. In this case the state tax authority withdraws its decree on the taxpayer status termination after the taxpayer has proved that the debt has been paid.

Tax return

Another change from 19 July 2017 is that the **revenue statement** of KATA taxpayers is considered to be a **tax return** in terms of legal consequences. This also means the following:

- the statement can be corrected as a tax return,
- In the event of failure, erroneous or delayed performance, if the statement is not filed or filed with errors or delay, the taxpayer may be called upon to fulfill his/her obligations in line with the rules on tax returns;
- if the taxpayer fails to submit the revenue statement after this notification, the taxpayer can be sanctioned as if he failed to submit his tax return.

Please contact our colleagues if you wish to have a detailed interpretation of this legislation as this newsletter offers general understanding.

Should you have any questions, please do not hesitate to contact us.

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