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Act CXVII of 1995

on Personal Income Tax

In the interest of ensuring tax revenues and based on the constitutional duty of citizens to contribute to public revenues, Parliament has adopted the following Act:

PART ONE

GENERAL PROVISIONS

Chapter I

PRINCIPLES

Section 1.

(1) In the Republic of Hungary private individuals shall fulfill their constitutional duty to contribute to public revenues from their income in accordance with the provisions of this Act, with due consideration of the provisions of the Act on the Rules of Taxation as well.

(2) The purpose of this Act is to secure - in due observation of the principles of proportionality and equity - the tax revenues necessary for the fulfillment of State responsibilities, and in special cases, to promote the implementation of certain social and economic goals.

(3) Any and all income of a private individual shall be subject to taxation. Different rules or tax allowances, for objectives of particular import, may only be established by an Act, with due consideration of the basic principles laid down in this Act. The tax base shall comprise the income after deductions made according to this Act from the taxable income, plus the items to be added to the tax base.

(4) Any divergent provisions or tax allowances, affecting tax liability and the amount of tax, and resulting in the reduction of a private individual's tax liability may only be applied, and/or enforced to the extent that the contents of the underlying contract, transaction, or other similar action is able to accomplish the purpose of the divergent provision or tax allowance. Applicability, and/or enforceability shall be proved by the party whose interest it serves. Where the parties attempt to enforce or increase the benefits derived from the application of the rules of taxation either by deviating from fair market values and prices, or by fictitious legal transactions, these shall be disregarded for the purposes of establishing tax liability.

(5) Private individuals, and other persons participating in or influencing the tax liability of such individuals, shall observe the basic principles set forth in this Section, in respect of the circumstances affecting tax liability and/or the rate of tax, when applying the relevant provisions.

(6) Subject to certain exceptions, income tax shall be assessed and paid in each calendar year on the basis of the total income, however, tax advance(s) shall be paid so as to ensure the continuous flow of tax revenues.

(7) Taxes (tax advances) paid on income that taxpayers may have earned in connection with invalid contracts or in any other unlawful way may be refunded following restoration of the original state, in compliance with the provisions pertaining to self-audit. If the original state has been restored before the deadline set for fulfillment of tax liabilities, no tax liability applies in connection with the aforesaid income.

(8) Where the amount of income, and the amount of tax (tax advance) payable is determined with any expenses and other deductions claimed in connection with an invalid contract or by any other unlawful way, such income and tax (tax advance), and the legitimate expense item or deduction shall be corrected following restoration of the original state, in due compliance with the provisions pertaining to self-audit. If invalidity or the lack of entitlement was declared before the assessment of income and the tax amount (tax advance), the expenses affected may not be claimed and the entitlement for deduction from the tax (tax advance) may not be enforced.

(9) The legal title for tax liability and obligations related to taxes (including the assessment of income) shall be determined:

a) in respect of lost income, according to the provisions on the loss of income in connection with any income received in the form of compensation, reimbursement or indemnification;

b) in respect of income received in the form of default interest or default penalty, according to the provisions applicable to the case underlying the payment received on account of late or non-contractual performance.

Section 1/A.

(1) The income obtained by a citizen of a Member State that falls under limited tax liability under the provisions of this Act shall not be subject to any taxation heavier than that to which the taxpayer, his spouse and his children would be liable if they were resident in that Member State.

(2) Application of the provisions of Subsection (1) shall be subject to the condition that the total income obtained by a private individual under the titles specified in Subsection (4) that falls under limited tax liability pursuant to this Act shall constitute at least 75 per cent of that person's total taxable income during the tax year. This shall be evidenced by the Hungarian translation of an official document that contains all the taxable income obtained by the natural person during the tax year (such as an income tax return or resolution) in the Member State in which the natural person is a resident.

(3) The tax relief granted to a private individual under this Act shall not be available if that person benefits from identical or similar reliefs in the Member State that taxes the items of his income specified in Subsection (4).

(4) The items of income referred to in Subsections (2)-(3) shall comprise income from activities other than self-employment and that from self-employment activities (including, for example, entrepreneurial income, the entrepreneurial dividend base and the income declared for flat-rate taxation), pensions and other similar remuneration received in consideration of past employment.

Chapter II

SCOPE

Section 2.

(1) This Act shall apply to private individuals, their income and the tax liability on such income.

(2) In certain cases stipulated by law related to the tax liability of private individuals, tax liability shall also apply to the parties from whom income is received. Payers (employers), falling within the sphere of the Treasury and those funded by local authorities as defined by the Act on Public Finances, shall fulfill the above obligations subject to the exception that where the withholding or payment of tax or tax advance is prescribed by law, it shall be understood as the assessment of tax or tax advance.

(3) For the purposes of tax assessment, private individuals shall account for their revenues and expenses in accordance with the provisions of this Act, even if they also fulfill bookkeeping obligations pursuant to the provisions of other laws.

(4) Resident private individuals shall be subject to tax liability in respect of all their income (all-inclusive tax liability). The tax liability of non-resident private individuals shall apply to income that originates in Hungary as the place of gainful activity or is taxable in the Republic of Hungary by virtue of international agreement or reciprocity (limited tax liability).

(5) Where an international agreement promulgated by an Act or Government Decree stipulates any derogation from this Act, they shall override the provisions of this Act. Derogation from this Act is also permitted if there is reciprocity, provided that this does not result in further tax liability on the part of the taxpayer when compared to those defined by the provisions of this Act. Reciprocity shall be determined by the minister in charge of taxation.

(6) The legal title for tax liability on any income that is taxable in the Republic of Hungary shall be determined on the basis of this Act and the tax liability (including the assessment of income) shall be discharged accordingly. The legal title shall be determined in consideration of the relationship between the

parties concerned (a private individual and the person from whom the income originates, and the said persons and another person) and of the circumstances of the gainful activity. Of these parties the income may be paid under the legal title determined as per the above by the person with whom the private individual is in a contractual relationship underlying the gainful activity upon which the income is paid, if this payer is in possession of the data necessary to fulfil his statutory obligations in connection with this income, also if the income is (was) paid by another person. If, according to the provisions of this Act, the tax is rendered payable by the payer, such obligation applies irrespective of where the private individual is established as a resident.

(7) The tax liability of private individuals that normally falls on the payer and is for incomes obtained in connection with the private use of an automobile owned or operated by a foreign-registered legal person or other organization and with the differential on the interest on loans provided by a foreign-registered legal person or other organization shall be performed - with the exception set out in Subsection (6) - as governed by the provisions relating to the payer, if the foreign-registered legal person or other organization provides such income to the private individual by ways other than through their domestic business establishments, branches or commercial representations.

(8) Tax liability on any benefits received under foreign law and recognized as the equivalent of social security benefits, family support benefits or social welfare support shall be determined (whether or not this Act provides any specific provisions regarding that particular form of income) according to Hungarian law, consistent with the pattern of tax liability applicable to other similar benefits based on their characteristics and conditions.

Chapter III

DEFINITIONS AND INTERPRETATIVE PROVISIONS

Section 3.

For the purposes of this Act, the terms used herein shall be interpreted as follows:

- 1) 'Domestic territory' shall mean the territory of the Republic of Hungary including duty-free areas.
- 2) 'Resident private individual' shall mean:
 - a) any citizen of Hungary (with the exception of dual citizens without a permanent or habitual residence - that fits the definition set out in the Act on Keeping Records on the Personal Data and Address of Citizens - in Hungary);
 - b) any natural person who exercises - in accordance with the Act on Admission and Residence of Persons with the Right of Free Movement and Residence - his/her right of free movement and the right of residence for a period of longer than three months in the territory of the Republic of Hungary in the calendar year in question for at least 183 days, including the day of entry and the day of exit;
 - c) who falls under the scope of the Act on the Admission and Residence of Third-Country Nationals and has permanent residence status, or is a stateless person; furthermore
 - d) any natural person, other than those mentioned in Paragraphs a)-c):
 - da) whose only permanent residence is in Hungary;
 - db) whose center of vital interests is in Hungary if there is no permanent residence in Hungary or if Hungary is not the only country where they have a permanent residence;
 - dc) whose habitual residence is in the domestic territory if there is no permanent residence in Hungary or if Hungary is not the only country where they have a permanent residence, and if their center of vital interests is unknown;where 'center of vital interests' means the country to which the private individual is primarily tied by bonds of family and business relations.
- 3) 'Non-resident private individual' shall mean all natural persons other than resident private individuals.
- 4) 'Place of gainful activity' shall mean
 - a) in respect of income from self-employment activities, the state in which the private individual is a resident; if, however, the private individual performs such self-employment activities via his place of business (permanent establishment), it is the state where such place of business (permanent establishment) is located;

b) in respect of income earned through the operation of means of water, air or road transport, the state where the operator is established or the state where the means of transport are registered, the provisions of Paragraph a) notwithstanding;

c) in respect of income earned in connection with real estate, including ownership, utilization, management, and the exercise of the right of disposition over the real estate (in particular, the transfer of title or leasing or renting out the property), the state where the real estate is located, the provisions of Paragraph a) notwithstanding;

d) in respect of income from activities other than self-employment, the state where the activities are commonly performed (regular place of employment); in the case if work is performed in various locations,

da) if the private individual performs the gainful activity under an employment relationship with a domestic place of business (permanent establishment), branch or commercial representation of the employer (principal), the place of gainful activity shall be Hungary;

db) in the cases other than what is contained in Subparagraph *da*), in connection with any income from activities performed in Hungary, the place of gainful activity shall be Hungary;

dc) by way of derogation from Subparagraph *db*), in connection with income from services provided (also) outside of Hungary by means of transport used for reward on international routes, the place of gainful activity shall be the state where the activity is taxable by virtue of international agreement or reciprocity, in other cases it is the state in which the private individual is a resident;

e) in respect of income from employment in the government sector (public servants, public officials, court and law enforcement employees, employees of public prosecution, professional staff members of the armed forces and any income earned by way of an equivalent relationship under foreign law, the state where the employer (principal) is established, the provisions of Paragraph d) notwithstanding;

f) in respect of income earned by the executive officers and supervisory board members of legal persons and other organizations, the state where the legal person or other organization is established, the provisions of Paragraphs a) and d) notwithstanding; 'executive officer' shall mean a natural person vested with the power to represent a legal person or other organization (i.e. member-director, managing director, company director);

g) in respect of income obtained through performing and other artistic activities, sports activities, exhibitions and fairs, the state where such activities are carried out, the provisions of Paragraphs a) and d) notwithstanding;

h) in respect of income (royalties) obtained in connection with a protected intellectual property (for example, patents, industrial designs, trademarks, know-how, copyright), the state in which the person liable to pay the royalty is established, the provisions of Paragraphs a) and d) notwithstanding; if, however, the royalty is payable via a domestic place of business (permanent establishment), branch or commercial representation of the above-mentioned person and if the right of the private individual to which the royalty pertains is in fact tied to his domestic place of business, the place of gainful activity shall be Hungary;

i) in respect of interest income and income from securities lending, the state in which the person liable to pay the interest or the borrowing fees is established; if, however, the interest or fee is payable via a domestic place of business (permanent establishment), branch or commercial representation of the above-mentioned person and if the right of the private individual to which the interest or fee pertains is in fact tied to his domestic place of business, the place of gainful activity shall be Hungary;

j) in respect of dividend income, the state in which the person liable to pay the dividend fees is established; if, however, the security (right) on the basis of which the dividend is paid is in fact tied to the domestic place of business of the recipient private individual, the place of gainful activity shall be Hungary;

k) in respect of income withdrawn from the business account, the state in which the business is established; if, however, the security (right) on the basis of which the income is received is in fact tied to the domestic place of business of the recipient private individual, the place of gainful activity shall be Hungary;

l) in respect of income obtained by gaming, the state in which the gaming operator is established; if, however, the gaming operation is conducted, with or without authorization, via a place of business (permanent establishment), branch or commercial representation, it is the state in which the place of business (permanent establishment), branch or commercial representation is located;

m) in connection with any income treated as in-kind benefits under this Act, the place of gainful activity shall be Hungary;

n) in connection with any income earned by way of the transfer or withdrawal of participating interest held in a company falling under the scope of the Act on Corporate Tax and Dividend Tax, with real estate

holdings, for consideration, including the conveyance of such participating interest by way of lending arrangements, the place of gainful activity shall be Hungary, Paragraphs *a)*, *i)*, *k)* and *o)* notwithstanding;

o) in the cases not mentioned in Paragraphs *a)-n)*, the place of gainful activity shall be the state in which the private individual is a resident.

5) 'Low tax-rate state' shall mean a state whose tax laws do not impose any tax liability in the nature of corporate tax or if the tax rate is 12 per cent or less, unless the Republic of Hungary has an agreement with that state to avoid double taxation in the income and wealth tax system;

6) 'Tax year' shall mean the period for which the tax base is to be assessed; it is the same as the calendar year, with the exceptions specified in this Act.

7) 'Crediting' shall mean a financial transaction as a consequence of which a private individual has the income in question at his disposal.

8) 'Tax liability' shall mean all of the duties prescribed in accordance with the provisions of this Act and the Act on the Rules of Taxation on income-earning private individuals and paying parties that are participating in the taxation process with regard to reporting, submitting declarations, assessing the tax base and taxes, filing tax returns, paying tax advances and taxes, deducting taxes, maintaining records, issuing receipts, data disclosure, and document storage.

9) 'Fair market value' shall mean the amount of consideration (hereinafter including interest and the remuneration commonly paid in the market for the activity as well) that is or would be enforced vis-à-vis independent parties under comparable circumstances. Fair market price among non-independent parties shall be determined by one of the following methods:

a) the amount of consideration (price, interest, emoluments) used by independent parties in connection with the supply of comparable products or services, or in connection with comparable activities in an economically comparable market (comparative price method);

b) the amount of consideration (price) used in connection with the supply of goods or services in an unaltered form to an independent party, less the reseller's costs and the customary profit (resale price method);

c) the original costs of the goods or services supplied, plus the customary profit (cost and income method);

d) value determined by any other method if the fair market value cannot be determined by neither of the methods referred to in Paragraphs *a)-c)*;

where fair profit means the profit achieved by independent parties engaged in comparable activities under comparable circumstances;

e) moreover, the following options are available in connection with personal participation and the activities of private entrepreneurs:

ea) the amount of consideration that is commonly paid, or should be paid, in a given area under specific conditions to workers for similar jobs of specific quality and volume, reflecting the qualifications, credentials and experience of the participating member or private entrepreneur and the diversity of his activities, and whether it comprises his main or auxiliary profile or performed part time only, as well as the time invested or the time lost (e.g. due to sickness or some official action) etc.,

or

eb) the salary for personal involvement paid from the income of the business partnership or private entrepreneur, or the sum resulting after deduction of costs - exclusive of entrepreneurial withdrawals - and the fair profit from entrepreneurial activities, and the emoluments established subject to the conditions mentioned in Subparagraph *ea)*,

or

ec) the salary for personal involvement paid from the income of the business partnership or private entrepreneur, or 80 per cent of the sum resulting after deduction of costs - exclusive of entrepreneurial withdrawals -, and the emoluments established subject to the conditions mentioned in Subparagraph *ea)*,

where 'fair profit from entrepreneurial activities' means the profit achieved by independent parties engaged in comparable activities under comparable circumstances, taking into account the market position, exposures and competitiveness of the business partnership or private entrepreneur, including their operating conditions (launching, suspension and termination of operations, any natural disaster sustained, official measures etc.).

10) 'Official and business travel' shall mean trips taken by a private individual with a view to obtaining income or to perform a task connected with the activities of the party paying such income, with the exception of commute to the work place, head office or place of business from the place of abode,

including, for example, travel necessary for working on assignment (appointment); furthermore, the travels of Members of Parliament, mayors and local government representatives to the extent required to fulfil their official duties (absence from home).

11) 'Assignment (appointment)' shall mean work ordered by the employer and performed at a place other than the location stipulated in the employment contract, including where professional members of the armed forces and professional and contract soldiers serving in the Hungarian Army are transferred or redeployed for reasons of service.

12) 'Foreign assignment' shall mean an extended stay by a private individual with domestic domicile outside the territory of the Republic of Hungary (hereinafter referred to as 'abroad') with a view to earning income and performing duties related to the activities of the party paying such income as well as any trip abroad in connection with the above, including, for example, foreign service and travel made in connection therewith.

13) 'Foreign service' shall mean work ordered by the employer and performed abroad.

14) 'Employer' shall mean the party with whom a private individual has an employment relationship, or - in connection with hired out workers - the user enterprise under contract with a temporary employment company or a placement agency regarding the income paid directly to the hired out worker. In connection with the hiring out of workers, as regards the allotments which are not treated as income and taxable non-wage employer-sponsored benefits, the relevant provisions of this Act shall apply to the total amount of such benefits provided by the placement agency and the user enterprise to hired out workers.

15) 'Social security benefits' shall mean the services provided in accordance with the Act on the Eligibility for Social Security Benefits and Private Pensions and the Funding for These Services, the Act on Mandatory Health Insurance, the Social Security Pension Benefits Act and the Act on Family Allowance.

16) 'Expense reimbursement' shall mean money received by private individuals as compensation for expenditures approved as expenses by this Act (except if it is not to be treated as part of the income) and made exclusively for the purpose of pursuing any particular gainful activity or in connection with any official and business travel (also including if for the purposes of assignment, foreign assignment, or foreign service). Expenditure on goods or services that directly satisfies the personal or family needs of private individuals in whole or in part shall not be regarded as such expenses, unless expense reimbursement is established in this Act or is a legally specified expense reimbursement, for which expenses need not be verified, as acknowledged by this Act.

17) 'Private entrepreneur' shall mean

a) any private individual shown in the register of private entrepreneurs according to the acts on private entrepreneurs and sole proprietorships, in respect of the business activities indicated in such license;

b) notaries public in respect of their activities governed in the Act on Notaries Public (except if performing these activities on behalf of a notary's office);

c) independent court bailiffs in respect of their activities governed in the Act on Judicial Enforcement (except if performing these activities on behalf of a court bailiffs' office);

d) private patent agents in respect of their activities governed in the Act on Patent Agency;

e) attorneys in respect of their activities governed in the Act on Attorneys (except if performing these activities on behalf of a law firm, whether by membership or as an employee);

f)-g)

h) European Community jurists in a self-employed capacity in respect of their activities governed in the Act on Attorneys (except if performing these activities on behalf of a law firm, whether by membership or as an employee).

18) 'Small-scale agricultural producer' shall mean a private individual above the age of 16 who is not a private entrepreneur but possesses a small-scale producer license and is engaged in activities aimed at producing the products listed in Schedule No. 6 on his own farm, including private individuals registered as agricultural producers in the register of the body in charge of agricultural and regional development aid and the private individual who qualifies as a family estate farmer under the Arable Land Act, and any members of the family of such private person who participate in the family homestead in a form other than employment, with respect to all of them in connection with the revenue (income) from the activity or activities aimed to produce the products listed in Schedule No. 6.

a) 'Own farm' shall mean the entitlement of the private individual who is actually conducting the production activities to dispose over the equipment (including leased equipment), the organization of production and - with the exception of cultivating sowing seeds under contract and breeding, fattening, and tending livestock under contract - the use of the results of production.

b) 'Small-scale producer license' shall mean an official document issued and validated pursuant to the provisions of a government decree designed to register the income generated by small-scale agricultural activities; the license shall contain

ba) the particulars of the small-scale agricultural producer;

bb)

bc)

bd) all of the other information prescribed in the government decree that is necessary for discharging tax liability.

The date on the small-scale producer license shall be considered as the commencement of small-scale agricultural activity.

c) in respect of cultivating sowing seeds under contract and breeding, fattening, and tending livestock under contract, the full delivered (gross) price of the product or animal shall be regarded as the income from small-scale agricultural activities, whereupon the delivery price of the product or animal may be claimed as an expense when determining income.

19) 'Agricultural smallholder' shall mean any small-scale agricultural producer whose revenue from such activities does not exceed 8 million forints in a tax year.

20) 'Fuel consumption allowance' shall mean the amount of fuel and lubricants defined in the legal regulation on the amount of fuel and lubricant consumption of road vehicles and certain agricultural, forestry and fishing machinery that may be claimed without verification. If the allowance cannot be determined in this manner, the amount determined by the manufacturer or a technical expert shall be used.

21) 'Wage' shall mean

a) income earned on the basis of employment (not including taxable insurance premiums paid by the employer or severance pay received upon termination of employment);

b) taxable social security benefits;

c) taxable benefits received on the basis of the Social Administration and Social Welfare Benefits Act (with the exception of non-taxable emoluments);

d) entrepreneurial benefits, job-seekers' benefits, job-seekers' allowance, if granted in consideration of the time when the private individual reaches the relevant retirement age within a five-year period, and income supplement and income compensation allowance;

e) remuneration of private individuals in reserve military service with the Hungarian Armed Forces;

f) reimbursements for loss of any income under Paragraphs a)-e) (income compensation benefit), including settlement payments received from liability insurance, not including accident compensations paid to private individuals receiving pension benefits.

22) 'Employment income' shall mean the income of private individuals from an employment relationship (including other relationships which are treated as employment relationship under foreign law).

23) 'Pension' shall mean

a) pension benefits received on the basis of the Social Security Pension Benefits Act either in one's own right or because of a relative, rehabilitation benefits specified in the Act on Rehabilitation Benefits, also unemployment aid received prior to retirement (advance pension benefits), job-seekers' allowance provided on the basis of the Job Assistance and Unemployment Benefits Act, if granted in consideration of the time when the private individual reaches the relevant retirement age within a five-year period, and rehabilitation benefits specified in the Act on Rehabilitation Benefits, and the early retirement pension based on the Government Decree on Early Retirement Plans;

b) service pension as defined in the Act on the Service Relation of Professional Members of the Armed Forces and in the Act on the Legal Status of Professional and Contract Soldiers Serving in the Hungarian Army, invalidity benefits, accident-related disability benefits, survivor's pension, parent's benefits and accident-related dependent's benefits;

c) pension payments provided by a private pension fund (including annuity services a private pension fund is liable to pay to a private individual based on an annuity policy purchased from an insurance company);

d)

e) pension supplements received in accordance with the Act on the Revision of Certain Pensions and the Termination of Certain Pension Supplements, and other subsidiary payments of the like;

f) pension benefits received on the basis of legislation in force prior to the entry into force of the Social Security Pension Benefits Act either in one's own right or because of a relative (in particular, old-age and disability benefits and widows' pension on the basis of membership in agricultural cooperatives as defined

in the Act on the Social Security System and in the Government Decree implementing it, and increased old-age and disability benefits and widows' pension on the basis of membership in specialized cooperatives);

g) allowance for Artistic Distinction and Excellence and to Masters of Folk Art, and to the widowers/widows of the recipients (pension supplement), and pension and retirement aid paid by the Hungarian Creative Arts Foundation in one's own right or because of a relative, and the old-age pension received pursuant to the Government Decree on the Eligibility of Artists Engaged in Various Forms of Artistic Activities for Old-age Pension;

h) miners' pension provided pursuant to the Government Decree on Miners' Pension Insurance and the cash benefits paid to retired miners from the coal fund in accordance with the Government Decree on the Cash Redemption of Coal Allowances to Retired Miners; furthermore, the cash benefits paid from the coal fund to the private individuals eligible for coal allowance in cash by definition of the aforementioned government decree - or to their close relatives as specified therein - by the former employer (or the successor of such employer) to the extent specified in the aforementioned government decree;

i) the benefits received pursuant to the Government Decree on the Introduction of Grants Bestowed for Patriotic Allegiance;

j) pension and pension supplement provided from pension funds created and operated by religious organizations to elderly or disabled ecclesiastical personnel or to the widows of such persons;

k) Olympic benefits provided pursuant to the Act on Sports, and the benefits provided for life with the distinction "Athlete of the Nation" under the same Act;

l) temporary provisions and periodical welfare benefits, and health impairment benefits of miners provided pursuant to the Ministerial Decree on the Occupational and Social Welfare of Incapacitated Workers;

m) income defined as pension in the conventions on double taxation concerning the income and wealth tax system, and other income of the kind received from any foreign institution irrespective of whether there is a convention.

n)

24) 'Interest' shall mean - unless otherwise prescribed in this Act - the sum of money and/or other gain to be paid by the private individual to the lender or deposit-holder, or to the private individual, for the use of and risks associated with his deposit or loan determined in the percentage of the deposit or loan amount for a specific period of time (including the winnings from prize drawing deposits).

25) 'Local self-government' shall mean the self-government authorities defined in the Local Government Act, including the local minority self-government bodies.

26) 'Severely handicapped person' shall mean a person defined as one suffering from a disease described in a legal regulation on entitlements related to severe health impairment, or who receives disability benefits.

27) 'Cultural institution service' shall mean library and archive services (SZJ 92.51); museum services and preservation services of historical sites and buildings (SZJ 92.52); performing arts (SZJ 92.31.21), motion picture projection activities (SZJ 92.13.11); zoological and botanical garden services and protection of natural resources (SZJ 92.53.1); adult and other education services provided by public education institutions (SZJ 80.4).

28) 'Uniform territorial assistance' shall mean the assistance under a territorial support scheme financed from the Guarantee Section of the European Agricultural Guidance and Guarantee Fund and the supplement provided from the national aid scheme, however, within the meaning of this Act this type of assistance shall not be allocated for covering operating expenses or for improvements.

29) 'Real property' shall mean any parcel of land and all other constituent parts of the land, excluding all standing (not harvested) crops or produce sold without changing owners of the real property (e.g. standing trees).

30) 'Movable property item' shall mean all articles other than real property, with the exception of payment instruments, securities, and all standing (not harvested) crops or produce sold without changing owners of the land (e.g. standing trees).

31) 'Rights in immovables' shall mean incorporeal rights in property, such as dominant tenement, leasehold, usufruct, use, easement and lease rights.

32) 'Value-increasing improvement' shall mean:

any investment made to increase the market value of an asset, where the costs of value-increasing improvements shall mean the substantiated expenses:

a) made in connection with the transfer of a movable property to increase its useful life or to improve its quality, and/or if made within a 12-month period before the transfer at a value of more than 5 per cent of the income indicated in the contract of transfer to increase its useful life or to improve or restore its quality;

b) made in connection with real property for the purpose of remodeling by definition of the Government Decree on Subsidies for Housing Purposes, and/or if made within a 24-month period before the transfer at a value of more than 5 per cent of the income indicated in the contract of transfer to preserve the condition of the property.

33) 'Business partnership' shall mean business associations, European public limited-liability companies (including European holding companies), European cooperative societies, professional associations, cooperatives, housing cooperatives, sole proprietorships, law offices, court bailiffs' offices, notaries' offices, patent practitioners offices and forest management associations and ESOP organizations.

34) 'Securities' shall mean all documents and data regarded as securities by the Civil Code or by the legal system of the place of issue as well as contributions to unlimited partnerships, contributions to limited partnerships, business shares in private limited-liability companies, cooperative shares, investor share certificate, converted investor shares, trust bonds as described in the Cooperatives Act, trust bonds and other contributions, with the exception of cooperative membership loans, and other property shares representing membership rights.

35) 'Social welfare support' shall mean non-repayable assistance granted in cash or in kind to indigent persons for social reasons, without consideration.

36) 'Indigent' shall mean a private individual whose existence (or that of his dependents) is jeopardized to an extent that - with regard to his financial situation - it can only be assured through outside assistance.

37) The term 'Hungarian Armed Forces and law enforcement personnel' includes members of the Hungarian Army, Police, the professional state and municipal fire brigades, Civil Defense, Customs and Excise Guard, and the staff of penal institutions and civilian national security services.

38) 'Uniform' shall mean the uniform official attire of the Hungarian Armed Forces and law enforcement agencies and the official attire prescribed by law.

39) 'Church' shall mean a religious community described as such by the Act on Freedom of Conscience and Religion and Churches.

40) 'Clergyman' shall mean any person defined as such by the internal rules and regulations of a church.

41) 'De minimis aid in the agriculture sector' shall mean the aid provided under Commission Regulation (EC) No. 875/2007 of 24 July 2007 on the application of Articles 87 and 88 of the EC Treaty to de minimis aid in the fisheries sector and amending Regulation (EC) No. 1860/2004 or under Commission Regulation (EC) No. 1535/2007 of 20 December 2007 on the application of Articles 87 and 88 of the EC Treaty to de minimis aid in the sector of agricultural production.

42) 'Aid for covering operating expenses or for improvements' shall mean financial support made available to private individuals for covering operating expenses or for improvements, on proof of actual expenditure, subject to the obligation of accounting toward the payer.

43) 'Formerly unemployed person' is a person who, immediately prior to his employment,

a) was registered as unemployed for at least six months by the government employment agency, or

b) received unemployment benefits pursuant to the Job Assistance and Unemployment Benefits Act or a supplementary income allowance pursuant to the Social Administration and Social Welfare Benefits Act, or

c) has exhausted his eligibility for the benefits described in Paragraph b), yet continues to cooperate with the government employment agency,

with the understanding that in respect of the conditions described in Paragraphs a)-c), the period during which the unemployed person has received maternity benefits and/or child-care allowance; the period of detention, imprisonment or confinement; and the time spent in reserve military service or in civil services (the period between entering and leaving such services) shall not be taken into consideration.

44) 'Similar position' shall mean the jobs classified as identical by the Uniform Categorization System of Occupations effective as of 1 January 1997 and promulgated by KSH Memorandum No. 9006/1996. (SK. 12.) KSH.

45) 'Passenger car' shall mean a motor vehicle equipped with three or four wheels with a passenger capacity of no more than eight adults, including the driver, with the understanding that petrol or diesel powered vehicles, electric vehicles, gas powered vehicles, race cars and caravans (mobile homes) are also included in this category. Multi-purpose motor vehicles with a gross weight of less than 2,500 kilograms (passenger cars with oversized cargo space) whose factory-designed cargo space can carry more than two passengers, with seats that can be simply removed at any given time to transfer the cargo space behind the

cabin wall to carry any cargo for which the vehicle is designed, including when the removal of the seats is accomplished by irreversible technical conversion, shall also be regarded as passenger cars.

46) 'Severance pay prescribed by law' shall mean severance pay, service discharge allowance and premium for extended service paid on the basis of the Act on the Service Relation of Professional Members of the Armed Forces and in the Act on the Legal Status of Professional and Contract Soldiers Serving in the Hungarian Army.

47) 'Leasing' is allowing the use of a tangible asset under a contract concluded before 1 January 1997 that stipulates the leasing of the tangible asset for a specific term of over 365 days under the condition that the lessee shall acquire ownership rights no later than the remittance of the last lease payment or upon the expiration of the contract, or that the lessor shall provide the lessee with a purchase option.

48) 'Voluntary mutual insurance fund' shall mean any organization that falls under the scope of the Voluntary Mutual Insurance Funds Act.

49) 'Private pension fund' shall mean any organization that falls under the scope of the Private Pension and Private Pension Funds Act.

50) 'Taxable insurance premium' shall mean a premium that is paid by another person on behalf of a private individual, named as the insured person or the beneficiary (excluding the consideration paid by a private pension fund to an insurance company in exchange for annuity policies, and the tax-exempt premium described in Schedule No. 1) on the part of the private individual on whose behalf the premium is paid.

51) 'Arable land' shall mean the landed areas described in Paragraphs a) and f) of Section 3 of Act LV of 1994 on Arable Land.

52) 'Certificate of charitable donation' shall mean the certificate issued by the beneficiary of a charitable donation, which shall indicate the name, registered address, residence, business establishments and tax identification number of the issuer and the private individual, the amount of donation and its purpose, and, in respect of nonprofit and priority nonprofit organizations, the degree of public service.

53) 'Leasing arable land' shall mean lease of land by a private individual owner or beneficial user of arable land for agricultural, forestry or fishing purposes, based on a written agreement for one or more years for which the owner or beneficial user is paid a fee.

54) 'Investment expense' shall mean a substantiated outlay that is recognized as an expense pursuant to this Act, incurred in connection with putting tangible or intangible assets into operation prior to the date on which the given asset is put into operation, and is shown in the prescribed records.

55)-59)

60) 'Beneficiary dependent' shall mean:

a) a person in connection with whom any family allowance or similar support is provided in accordance with the Family Assistance Act or with any other similar legislation of any EEA Member State,

b) any person who is eligible to receive family allowances in his own right,

c) fetuses (twin fetuses) during pregnancy (from the 91st day after conception until birth),

d) private individuals who receive disability benefits.

61) 'Purchase of real property for public service purposes' shall mean a purchase made pursuant to the provisions of Act CXXIII of 2007 on Expropriation.

62) 'Student wages' shall mean remuneration paid to full time students of institutions of higher education listed in the Higher Education Act who attend first basic or masters accredited curriculum classes at such an institution, or students who attend first doctorate curriculum classes for work done during the academic period specified in the education requirements performed:

a) at the institution of higher education attended by the student; or

b) at a company established in a building owned or operated by such institution of higher education; or

c) at any other company in which the institution of higher education has a participation; or

d) at a research institute of the Hungarian Academy of Sciences providing higher education and/or postgraduate training, provided that the remuneration is received from such institution or company.

63) 'Group transportation' shall mean transportation that an employer provides for at least four employees with a view to the performance of work

a) with a vehicle owned or operated by the employer, or

b) by a chartered passenger transportation service hired from a payer.

64) 'Insurance settlement' shall mean valuable consideration provided by the insurance carrier for which the insurance company is liable at the time an insured event occurs by virtue of the underlying insurance contract.

65) 'Social worker's fee' shall mean the income received, exclusive of any benefits, by a private individual for activities carried out outside the framework of employment on the basis of or in compliance with legal regulations on personal care or for psychological or emotional assistance provided outside the framework of employment.

66) 'Basic research' shall mean systematic study and investigation in some field of knowledge, whose fundamental purpose is to discover or establish facts or principles without any specific goal in terms of application or usage.

67) 'Applied research' shall mean systematic study and investigation that is conducted primarily to obtain specific, practical knowledge in a specific field.

68) 'Experimental development' shall mean the systematic application of knowledge obtained through research and practical experience, the purpose of which is to create new materials, products and devices; implement new technologies, systems and services; or achieve substantial improvements in those already existing or implemented.

69) 'Independent parties' shall mean persons (natural persons, legal persons, other entities), between whom there are no close economic or legal ties based upon which one of the parties is able to exercise dominant influence relating to the decisions of the other party, or that constitutes a close cooperation with respect to the parties' operations (persons engaged in employment relationship with one another, whether as paid employees or in a self-employed capacity, shall not be treated as independent parties, nor a business association and any private individual with majority control in that business association, whether directly or indirectly, and where the rights of close relatives are taken into consideration on the aggregate).

70) 'Natural disaster' shall mean acts of nature where perils covered include hail, flood, damage due to excess surface waters, frost damage, sandstorm, drought, snow-, ice- and windstorm, earthquake, and fire whether due to natural or biological causes, that may be verified by a deed documenting the damage (e.g. a report or assessment made out by an insurance company, an agricultural administration body, or an emergency response body, etc.), or a report drawn up by the injured party if a document made out by an independent organization is not available.

71) 'Vocational training benefits' shall mean the cash allowance paid to students of vocational schools as defined in the Vocational Training Act and to students of institutions of higher education, and the remuneration paid to vocational students with no apprenticeship agreement or study contract as laid down in the Vocational Training Act, for the duration of apprentice training.

72) 'Non-taxable emoluments' shall mean

a) pension benefits and:

aa) accident compensations,

ab) supplementary income allowance for damages suffered, paid to private individuals drawing pension benefits, provided that they are of the relevant retirement age;

b) child-care allowance, maternity support and child-rearing allowance received according to the Family Assistance Act, and child-raising benefits paid to foster parents as decreed by the Government upon authorization conferred by the Act on the Protection and Guardianship of Children;

c) attendance allowance received on the basis of the Social Administration and Social Welfare Benefits Act;

d) social worker's fees up to 180,000 forints per year;

e) the cash allowance paid to students attending vocational schools under apprenticeship agreement or higher vocational education under study contract, moreover, the monthly remuneration paid to vocational students with no apprenticeship agreement, for the duration of apprentice training, and the supplementary cash allotment provided to students under apprenticeship agreement according to the relevant legislation, furthermore, the scholarship paid from the training segment of the Labor Market Fund under the Act on Vocational Training Contributions and Assistance for the Improvement of Vocational Training Programs.

f) the following benefits paid to students of institutions of higher education

fa) on the basis of the Higher Education Act:

- scholarship,

- full amount of financial assistance to purchase textbooks and note materials,

- housing allowances provided in lieu of boarding (dormitory) services;

fb) from the remuneration paid for the period of apprentice training each month, the part that does not exceed the prevailing minimum wage in effect on the first day of the month;

g) cash allowances - other than those specified under Paragraphs e)-f) - provided to students and scholars by schools and educational institutions under the Public Education Act, institutions of higher education

under the Higher Education Act, by local authorities or by the church in connection with the study relationship and under the conditions defined by law, where such allowances are deemed income for the purposes of this Act;

- h)
 - i) from student wages, each month the part that does not exceed double of the prevailing minimum wage in effect on the first day of the month;
 - j)
 - k) allowance awarded by recommendation of a member of the Hungarian Corvin Pendant Society under the Prime Minister's Decree on the Foundation and Charter of the Hungarian Corvin Pendant Award;
 - l) income that is exempt from tax in the Republic of Hungary by virtue of international agreement promulgated by an act or government decree, or under reciprocity, but which may be included in calculating the tax and that is not taxable separately;
 - m) income paid (provided) under any legal title that is treated the equivalent of those contained under Paragraphs a)-j) by the laws of any EEA Member State defined in Point 78 of Section 3;
 - n) income paid (provided) under the laws of any EEA Member State defined in Point 78 of Section 3, that is considered part of the consolidated tax base under this Act, and that is exempt from any tax that is compatible to income tax even if paid (provided) to a private individual who is a resident of that Member State;
 - o) cash award paid in connection with gold, diamond, iron, or ruby certificate of merit awarded under the Act on Higher Education by an institution of higher education according to its regulations, in an amount not to exceed four times the prevailing monthly minimum wage that is in effect on the first day of the tax year;
 - ö) the amount of grant received by a worker employed under scholarship agreement not to exceed the amount of the prevailing minimum wage;
 - p) from the monthly amount of any support provided to agricultural producers specified in the Act on Arable Land for homestead conveyancing, and to their family workers and employees in accordance with specific other legislation, the part that does not exceed the prevailing monthly minimum wage;
 - q) any income obtained by the private individual in the form of service charge in accordance with specific other legislation, and the gratuities received from a patron of a restaurant where the private individual is employed as a waiter or waitress;
 - r) student's or mentor's grant provided under the "Viaticum" Scholarship Program subject to the terms and conditions decreed by the Government.
 - s) the Hungarian State Eötvös Scholarship specified in the relevant Government Decree, the Deák Ferenc scholarship granted, according to the relevant Government Decree, by the Minister of Education and Culture, and a scholarship for higher learning granted according to the relevant Government Decree.
 - t) non-repayable assistance provided to the employee by his/her employer for housing purposes, by way of a credit institution or through the Magyar Államkincstár (Hungarian State Treasury) - and as verified by them - (including any part of a loan granted by the employer for housing purposes that has been cancelled), up to 30 per cent of the purchase price or the total cost of construction, not to exceed 5 million forints for the four-year period previous to the payment of such assistance where more than one employer is involved, covering all sums paid on such grounds, on condition that the residential suite in question does not exceed the reasonable housing requirement as defined in the government decree on subsidies for housing purposes (employer support for housing purposes);
 - u) the benefits provided under the government decree on the anniversary celebration of the elderly;
 - v) the emoluments (scholarship) and other cash allowances provided to students of a military or police academy.
- 73) 'Residential suite' shall mean a constructed structure registered, or in the process of being registered in the real estate register as a detached house or a residential suite, furthermore, a structure under construction shown as a detached house in the building permit if the walls and the roof structure are completed, furthermore, any rural house standing on a parcel shown as a homestead in the real estate register.
- 74) 'Residential lot' shall mean a building plot defined as such in the Act on the Formation and Protection of the Built Environment, if the land is zoned for residential building in the respective structural plan and/or in the local zoning ordinance, also the parcel of land that is registered together with the residential suite, and the parcel of land on which the residential suite has dominant tenement.

75) 'Total income of a private individual for the tax year' shall mean the combined total of the income declared in the private individual's tax return, the consolidated tax base assessed by the employer and all income taxed separately, with the exception that:

a) in respect of private entrepreneurs using entrepreneurial income-based taxation, the tax base comprising part of the consolidated tax base and the part of the entrepreneurial dividend base taxed separately shall be applied collectively;

b) income from the transfer of any real estate property, that is not considered a part of the consolidated tax base, shall not be included;

c) income applied legitimately as the base for simplified contribution to public revenues shall also be included.

76) 'Individual retirement account' shall mean a collection of accounts opened at an institution specified in the Act on Individual Retirement Accounts, if the manager of the account uses - based on the statement provided by the private individual account-holder the designation „NYESZ-R” in connection with the individual retirement accounts and the related accounting documents prescribed for the application of the provisions of this Act.

77) 'Mandatory minimum wage' shall mean the amount of the mandatory monthly wage, whether or not this Act provides any provisions to that particular form of income, that is in effect on the first day of the year, except for the prevailing minimum wage mentioned in the provisions of this Act governing expense accounts.

78) 'EEA Member State' shall mean any Member State of the European Union and any State that is a party to the Agreement on the European Economic Area, furthermore, any other country whose citizens are enjoying the same treatment as nationals of States who are parties to the Agreement on the European Economic Area by virtue of an agreement between the European Community and its Member States and a State that is not a party to the Agreement on the European Economic Area.

79) 'Investment service provider' shall mean investment firms, commodity dealers, credit institutions providing investment fund management services, and any person authorized under foreign law to engage in activities recognized as equivalent to the activities pursued by the prior.

80) 'Employer sponsored pension institution' shall mean the employer sponsored pension institution defined in the Act on the Concept and Institutions of Employer Sponsored Pension.

81) 'Payer' shall mean the person defined as such by the Act on the Rules of Taxation, with the exception that the concept of payer shall also include resident credit institutions hired by foreign entities in connection with the services they provide in Hungary, if they pay out (credit) any taxable income in Hungary in connection with such assignment.

82) 'First-time employee' shall mean a person entering into an employment relationship whether under contract of employment or under some other form of legal relationship for the first time within one calendar year upon conclusion of his studies in the regular daytime course of a secondary educational institution of the school system or in an institution of higher education.

83) 'Assignment order' shall mean a document issued by payers in two counterparts, that is to indicate the private individual's name, tax identification code, the make and model, and the license number of the motor vehicle, the objective, duration and distance of official or business trip(s), paid travel expenses, meal allowances, and the particulars necessary for the calculation of such expense reimbursement(s) (fuel consumption rate, fuel price, etc.). The payer shall retain the original and the employee shall retain the second copy of the assignment order in due observation of the provisions on retaining accounting documents.

84) 'Aid provided to small and medium-sized enterprises under the Commission Regulation on State aid' shall mean aid provided pursuant to Articles 1-13 of Commission Regulation (EC) No. 800/2008 of 6 August 2008 declaring certain categories of aid compatible with the common market in the application of Articles 87 and 88 of the Treaty (General block exemption Regulation).

85) 'Controlled foreign company' shall have the meaning defined in the Act on Corporate Tax and Dividend Tax.

86) 'Reference wage recognized for a trade' shall mean the remuneration commonly paid in the market for the private individual's main activity.

87) 'Vacation voucher' shall mean a voucher issued by the Magyar Nemzeti Üdülési Alapítvány (*Hungarian National Recreation Foundation*) to the name of the recipient, that may be redeemed for domestic holidays, recreational and cultural services, convalescence, health preservation and sickness prevention services, and for leisure sports services only, where the issuer shall specify the services

accessible subject to the prior consent of the minister exercising founder's rights and of the minister in charge of taxation.

88) 'Training outside the regular school system' shall mean the type of training where the participants are not engaged under a student relationship with the education institution.

Section 3/A.

(1) Paragraph *t*) of Point 72 of Section 3 shall apply where the non-repayable assistance provided by the employer for housing purposes is used for:

a) the acquisition of title to a residential suite located in Hungary, including tenure in the landed property on which it stands, by deed of sale or any other contract stipulating a consideration (including the closed-end leasing of a residential suite);

b) construction of a residential suite in Hungary by self or by others;

c) increasing the floor space of a residential suite located in Hungary, by way of the addition of at least one room;

d) remodeling by definition of the government decree on subsidies for housing purposes.

(2) The following documents shall be accepted in evidence of having used the assistance provided by the employer for housing purposes:

a) in the case of the acquisition of title to a residential suite, including tenure in the landed property on which it stands, the deed of sale or valid contract, and the application for registration submitted to the real estate supervisory authority, and the document certifying use of the amount in question;

b) in the case of construction or expansion of a residential suite, whether by self or by others, the final occupancy permit and an invoice made out to the name of the holder of the building permit before the date of the occupancy permit or before the deadline indicated in the occupancy permit for the fulfillment of the conditions so as to certify use of the amount in question;

c) in the case of remodeling a residential suite, an invoice made out inside a period of six months before and twelve months after the date of receiving the support on the building products used if their conformity has been certified in accordance with the government decree laying down detailed provisions for the technical requirements and certification, distribution and use of building products, and any invoice containing the price charged for work performed by others;

(3) In connection with the non-taxable emoluments referred to in Paragraph *t*) of Point 72 of Section 3, credit institutions shall supply information concerning the assistance they have intermediated, and employers concerning the loan amounts they have cancelled to the state tax authority by 31 January of the following tax year.

(4) Any private individual who is using flat-rate taxation and has a permanent establishment in a foreign country shall apply Paragraph *l*) of Point 72 of Section 3 to his presumptive taxable income assessed from his income obtained through the said permanent establishment.

Chapter IV

GENERAL PROVISIONS PERTAINING TO INCOME AND TAX LIABILITY

Income, Revenues, Expenses

Section 4.

(1) All taxable revenue received by a private individual from others shall be considered income, or the portion of such income with the fixed-amount expenses recognized in this Act deducted, or a given proportion thereof as set forth in this Act.

(2) Revenues are valuable considerations received by a private individual from others in any way or form, in cash (hereinafter including cash equivalents as well), and/or in non-cash assets. Non-cash income shall, in particular, include credit tokens (including, in particular, gift certificates, notes, bills, coupons and other similar instruments, which can be used as a payment instrument in exchange for the goods and/or

services of one or more persons, or as an instrument that is accepted by one or more persons in exchange for any part of an existing liability); goods, services, securities, participation, any transferable or otherwise marketable right of value; debts canceled or assumed; expenses or sums paid on behalf of the private individual; interest rate discount; goods or services supplied to a private individual for personal (private) use, free of charge or at a discount rate. However, no revenue shall be considered acquired in connection with the use of any asset (equipment, tool, vehicle, clothing, etc.) or service (electricity, heating, etc.) that is to be provided by a person to the private individuals who participates in its operations, where these are provided with a view to carrying out the activities in question, as a precondition for the performance of work (including where they are provided in the form of training outside the regular school system, and for the protection of workers at work, including the provision of services in connection with occupational safety and occupational health requirements prescribed in the Act on Labor Safety as a liability of employers), even if such assets and services can also be used for personal reasons and private purposes, apart from the use for which they were intended and/or any utilization or use for personal reasons and private purposes cannot be automatically excluded, except where this Act recognizes the utilization or use, or the possibility of utilization or use of the asset in question as a taxable event.

(3) Only expenses directly connected to gainful activities, actually paid during the tax year exclusively for the purpose of gainful activities and for pursuing the activities, which are duly substantiated shall be recognized as expenses. This provision shall apply in connection with the use or utilization of any asset (equipment, tool, vehicle, clothing, etc.) or service (electricity, heating, etc.) in connection with activities carried out in a place physically detached from the private residence or at another location entirely, where these are provided with a view to carrying out the activities in question, as a precondition for the performance of work (including the provision of services in connection with occupational safety and occupational health requirements) only if in fact used for private purposes outside the scope of business, or if such assets and services can also be used for personal reasons, this Act recognizes the utilization or use, or the possibility of utilization or use of the asset or service in question as a taxable event, with due regard to the provisions governing expense accounts. Furthermore, any expenditure recognized by this Act as an expense irrespective of the actual payment of the expenditure, shall also be treated as an expense. In connection with any non-repayable aid received by a private individual on the basis of law or international agreement, deduction of expenses from such income shall be permitted only inasmuch as permitted by the said legislation or international agreement in connection with the appropriation of the support.

(4) If a private individual wishes to show the price paid for a product or service under expenses, where the supplier of the product or service is required under the Act on Value Added Tax to issue a sales invoice, such expense may only be evidenced by the kind of sales invoice specified in the Act on Value Added Tax (excluding cash receipts). Furthermore, an expense item may be verified by an invoice only if it contains all information necessary to determine the amount of the expense item (such as the amount paid and the currency).

(5) Unless otherwise prescribed in this Act, the income received by a private individual through the conveyance of jointly owned movable or immovable property shall be subject to taxation in a manner prorated to the percentage of ownership, taking into account any restrictions of ownership rights. Unless otherwise stipulated by the owners, this provision shall be applied to income earned by way of the rental of the above-specified property and the alienation of securities.

(6) During the existence of community property established by marriage, the tax liability on the income produced during such period by the activities of the parties - other than the income specified in Subsection (5) - shall fall on the person who carries on the activity in question or who is a beneficiary under the title of acquisition of the income.

Section 5.

(1) For the purpose of determining taxable income, all income and expenses shall be denominated in forints.

(2) In the case of credit tokens, income means the amount for which the credit token can be exchanged for goods or services, or to reduce a payment obligation.

(3) In the case of debts canceled or assumed, income means the amount of the private individual's debt or liability that has been terminated. In the case of expenses paid on behalf of or for the benefit of the private individual, income means the full amount of the expense in question.

(4) Any valuable consideration not mentioned in Subsections (2)-(3), that is received in a form other than money shall constitute part of the revenue at the fair market value applicable at the time it is received.

(5) If, by virtue of specific provisions of this Act, the amounts determined under Subsections (2)-(4) above are to be considered revenue only in part, income shall be determined on the basis of that part of revenues under the provisions otherwise applicable.

(6) If a provision of this Act does not contain a separate provision with regard to accounting of the amount of value added tax (hereinafter referred to as "VAT"), the provisions of Schedule No. 4 shall be applied.

(7) Income earned and expenses charged in a foreign currency, and sums indicated in a foreign currency in any document that is to be used for determining the amount of tax shall be translated into forints in accordance with Section 6, using the official foreign exchange rate quoted by the Magyar Nemzeti Bank (hereinafter referred to as "MNB"), and in respect of any foreign currency that is not listed in the official MNB schedule of foreign exchange rates, the euro exchange rate published by the MNB shall be applied.

Section 6.

(1) Sums indicated in a foreign currency shall be translated, subject to the exceptions set out in Subsections (2)-(3), by the exchange rate in effect, in connection with:

- a)* income, at the time the income was received,
- b)* expenses, at the time of performance,
- c)* the transfer of goods, purchased rights other than financial instruments, purchased receivables, at the time when they are acquired as regards the acquisition value,
- d)* the transfer of securities, at the time of acquisition of title to the securities or on the day when dematerialized securities are recorded on the securities account as regards the acquisition value,
- e)* transactions involving financial instruments other than those mentioned in Paragraph *d)*, at the time the transaction is settled (concluded), Paragraphs *a)-b)* notwithstanding.

(2) The tax on any interest income received in a foreign currency shall be assessed and deducted in that same currency, and shall be paid in forints translated by the exchange rate in effect at the time when the income was received.

(3) By way of derogation from Subsection (1) of this Section and Subsection (7) of Section 5, where a private individual received any income in a foreign currency, or if paid any expenses in a foreign currency, and

a) in the cases mentioned in Paragraphs *a)-c)* of Subsection (1), he has a receipt made out to his name by a financial institution verifying the sale/purchase of the foreign currency in question within fifteen days after the time defined therein if the foreign currency is sold or within fifteen days before that time if the foreign currency is purchased, the exchange rate applied may be used up to the amount shown on the receipt for translation into forint;

b) the foreign currency was sold/purchased in a transaction referred to in Paragraphs *d)-e)* of Subsection (1), the sum in question shall be translated to forint by the exchange rate used for the transaction.

(4) By way of derogation from what is contained in Paragraph *a)* of Subsection (1) of this Section and in Subsection (7) of Section 5, the private individual shall have the option - made in a statement provided to the payer in respect of the incomes he has provided, or in a statement included in the tax return in other cases - to use the official MNB exchange rate for the translation of all incomes received in foreign currencies comprising the base for his income declared for the tax year in effect on the fifteenth day of the month preceding the month when such income was acquired, and in respect of any foreign currency that is not listed in the official MNB schedule of foreign exchange rates, the euro exchange rate published by the MNB.

Items Not Recognized as Part of the Tax Base or as Expense Items

Section 7.

(1) The following revenues shall not be taken into account when calculating income:

- a)* any income that is declared tax exempt under Schedule No. 1 of this Act, or by other laws;

b) the valuable consideration for which the private individual is liable to pay the fair market value in the amount established for the day on which the underlying legal relationship was concluded; however, if the private individual is not required to pay anything or is liable to pay only a part of the fair market value, the fair market value or the part that remains after deducting the amount of payment obligation shall - unless this Act contains provisions elsewhere to suggest otherwise - comprise a part of revenues that is to be included when determining the private individual's income; in this case the fair market value at the time of acquisition shall be taken into account as the cost of acquisition in connection with the transfer of the valuable consideration, regardless of whether or not it is expressly prescribed in this Act;

c) the valuable consideration the private individual has received subject to an obligation of repayment (including, in particular, loans and credit received), and any valuable consideration the private individual has previously conveyed when it is returned to the private individual (or, in the case of death, to his/her heir) not as a compensation (consideration), (including, in particular, repayments on loans and credit provided, not including interest payments received on loans and credit provided); however, the valuable consideration obtained (service used) by the private individual through the gratuitous or preferential use of a received valuable consideration shall - unless this Act contains provisions elsewhere to suggest otherwise - comprise a part of revenues that is to be included when determining the private individual's income;

d) any services provided by a non-governmental organization or a public body that is not involved in any profit oriented activities in exchange for a membership fee, contribution or donation paid by the private individual, if the recipient organization is not entitled to provide a certificate based on which to claim any tax deduction or tax allowance;

e) refunded tax and tax advance, provided that it was not claimed as an expense previously, furthermore, sums paid by the voluntary mutual insurance fund and credited to the private individual's individual account based upon the lawful instruction of the private individual; and sums paid and credited to the private individual's individual retirement account based upon the instruction of the private individual;

f) any assets that were obtained through criminal action as established by a final court decision, if such assets were in fact confiscated;

g) moneys (value of payment order) given to a private individual, including amounts used for travel and accommodation pertaining to official and business trips, as well as amounts used for travel, accommodation, in respect of foreign assignments, for which the private individual is required to present a receipt directly to the person providing it; or, if the expense has been advanced by the private individual and it is subsequently reimbursed by the provider on the basis of settlement by receipts to the private individual; nevertheless, this regulation shall not apply to expenditures not recognized by this Act as expenses for private individuals;

h) public debts canceled by the authorities on the basis of legal regulations,

i) sums paid by another party instead of the private individual pursuant to the provisions of the Act on the Eligibility for Social Security Benefits and Private Pensions and the Funding for These Services:

ia) under an agreement for the purpose of providing income to be applied as a pension base and service time for the purpose of eligibility for pension benefits, and/or

ib) for the purpose of eligibility of an uninsured private individual for health care services, (in both cases, including if paid within the framework of the compulsory social security system of any EEA Member State);

j) sums:

ja) transferred by a private pension fund or voluntary mutual insurance fund, by order of its member or the beneficiary, to another fund of the like or to the Pension Insurance Fund in accordance with the provisions of the act that governs the activities of the fund in question;

jb) that a voluntary mutual insurance fund has credited to the beneficiary's individual account based upon the instruction of the beneficiary, or if there is no beneficiary, to the individual accounts of fund members;

jc) paid (transferred) to the private individual from his/her individual retirement account that is treated as pension benefit according to specific other legislation;

jd) transferred, at the private individual's request, by an employer sponsored pension institution in which the person in question has an account, to another institution when the private individual's employment is terminated;

je) credited to a member's account at an employer sponsored pension institution;

k) sums paid by another party instead of the private individual under an agreement concluded for the payment of membership fees pursuant to the provisions of the Act on Private Pension and on Private Pension Funds;

l) sums paid by employers to teachers in reimbursement of the fees for training courses they attend in preparation for examination or further education and the related expenses (travel, lodging, meals, books, library charges), if financed from subsidies received from the central budget;

m) valuable consideration, the personal income tax of which is payable by the payer.

n) assistance provided by local authorities through public tender in a manner pursuant to legal regulation,

na) to a condominium for renovation or remodeling as defined in the relevant legal regulation,

nb) to a private individual for home renovation or remodeling as defined in the relevant legal regulation;

o)

p)

q) the cost of tickets in connection with official or business travel, including the cost of meals which are customarily included in the ticket price, and the cost of accommodation in connection with official or business travel, including the cost of breakfast which is customarily included in the room price;

r) the sum received as expense reimbursement based on an assignment order, in connection with travel costs for actual mileage during official or business travel, provided that the amount of such reimbursement is not in excess of the limit prescribed by law allowed to be claimed without verification;

s) entertainment costs as defined in Subsection (10) of Section 69 and business gifts whose individual value does not exceed 10,000 forints, if the payer is not subject to any tax liability concerning the value in question under Hungarian laws;

t) the proceeds from the sale of arable land transferred to gain eligibility for support to agricultural producers specified in the Act on Arable Land for homestead conveyancing;

u) certain benefits provided to persons in accordance with the Act on the Ethnic Hungarian Population of Neighboring Countries, such as gratuitous basic services in the fields of education, culture and science and other allowances specified in specific other legislation, travel allowances and other allowances provided to holders of student passes under specific other legislation, and benefits provided to ethnic Hungarian teachers living in another country in minority as specified in the Act, and other benefits of value provided as specified in the Act to persons within its scope in connection with their education beyond or within the borders of their homeland.

v) aid that is provided under legal regulation or international convention and made available upon verification that it is spent for the designated purpose for covering operating expenses or for improvements (including any aid the private individual has received under legal regulation or international agreement in connection with the costs of entering into self-employment, before commencing operations, or in connection with joining an existing business association or establishing a new one), provided that the private individual has not previously claimed any expenses (or any depreciation write-off) in connection with using it for the designated purpose;

w) part of the fair market value of goods or services supplied by the payer at a discount that was not paid by the private individual, not to exceed the amount of discount received by the payer from an independent party when obtaining the goods or services in question;

x) sums received by the private individual who is subject to Hungarian laws and who represents a foreign employer that is not required to register according to national laws in connection with the rights and obligations entitled advance payment on or reimbursement for payments made on behalf of the above-mentioned foreign employer;

y) any provision made to a volunteer under the Act on Voluntary Activities of Public Concern that is not considered a valuable consideration;

z) the social security contributions assumed by the employer under Section 30 of the Act on the Eligibility for Social Security Benefits and Private Pensions and the Funding for These Services.

(2)

(3) Where any provision of this Act must be or may be applied depending on any threshold limit prescribed for the income from the private individual's activities, this threshold limit shall be increased by the amount of any assistance provided on the strength of law or international agreement (including any uniform territorial assistance), unless otherwise provided for in this Act.

Section 8.

(1) Apart from the exceptions stipulated in this Act, expenditures for the purchase of products or services that are used in any extent to satisfy the personal or family needs of private individuals shall not be considered expenses.

(2) The consideration paid to a person whose corporate or private domicile is located in a low tax-rate state, or to a controlled foreign company shall not be recognized as an expense item, unless the private individual is able to prove that it is directly connected to his gainful activity and it exclusively serves the purposes of such activity. Moreover, the expenditures incurred in connection or associated in any way or form with the felony offenses - by definition of the Criminal Code - of bribery, influence peddling, bribery in international relations and influence peddling in international relations shall not be recognized as expense items.

(3) Where any non-repayable aid granted by virtue of law or under or international agreement are not to be treated as part of the income in accordance with the provisions of this Act, no expenses may be claimed in connection with the said aid used in harmony with the provisions of the legal regulation or international agreement (nor any depreciation write-off). If the amount of the aid covers only part of the expenses, this provision shall apply only to that part of the expenses which is covered by the aid.

(4) Any expenditure may only be taken into account as an expense singularly, on one occasion and, with the exceptions defined in this Act, at the most to the extent of the revenues.

Commencement of Tax Liability and the Date of Obtaining Income

Section 9.

(1) Tax liability shall commence on the day upon which the gainful activity begins, or upon the conclusion of the legal relationship in connection with which the income is obtained, and shall exist irrespective of whether:

- a)* the private individual pursues his gainful activity with or without an official license, or in what form such income is obtained;
- b)* the income earned abroad is transferred or brought to Hungary;
- c)* the income is earned from the activities performed previously or under the previous legal relationship in the case of termination of the activity or the legal relationship.

(2) The date of acquisition of income means:

a) in the case of money, the day when it is received by the private individual, or by someone else on his behalf, or when credited on a payment account on behalf of the private individual, if, however, the payer conveys any payment that is due to the private individual by way of transfer by way of delivery of cash payment made from payment account, with tax advances deducted, the revenue shall be considered received as on the date of transfer or payment, if it is in fact credited to the private individual's payment account prior to the date on which his tax return is filed or before the declaration required by the employer for tax assessment, or if it is taken possession (delivery) of by another person on behalf of the private individual by that date;

b) in the case of things, securities, drafts, checks and other similar instruments, the day of transfer of title of ownership or - if this occurs earlier - the day when it is taken possession of by the private individual or another person on his behalf; in respect of dematerialized securities, revenue date means the day when recorded on the securities account, if, however, with respect to the aforementioned valuable consideration, the private individual is not entitled to beneficial use and enjoyment, or to the right of disposition, the income shall not be treated as acquired until one of these entitlements is achieved;

c) in the case of services supplied, the date of performance on which the service provider's tax liability comes due or would come due in accordance with the Act on Value Added Tax (irrespective of whether the service provider is subject to payment of value added tax or not), if, however, the supplier and the provider of the service is not the same person, the date when the right to use the service is obtained shall be recognized as the revenue date;

d) in the case of transferable rights of value or rights which are otherwise marketable, the date on which the private individual becomes eligible to exercise, alienate, terminate or assign the right in question;

e) in the case of cancelled debts and assumed liabilities, the day when the debt or liability of the taxpayer is terminated;

f) in the case of payments made on behalf or in the benefit of a private individual, the day when the payment is in fact affected;

g) in the cases not mentioned in Paragraphs a)-f), the day as of which the private individual has the right of disposition over the valuable consideration that comprises the revenue.

(3) If the private individual has exercised his right of disposition over the valuable consideration that comprises the revenue prior to the date referred to in Subsections (1)-(2), then revenue date shall mean the day of exercise of the said right of disposition regardless of what is contained in Subsections (1)-(2), if, however, the private individual has advanced the expenses on the valuable consideration that comprises the revenue to the provider and/or required to account for the receipt, the revenue date - by way of derogation from the above - shall be the date of accounting.

(4) In respect of private entrepreneurs using the entrepreneurial income taxation system, revenue date means the day when it is claimed under expenses.

(5) In the event that the tax authority discovers any undeclared taxable income, the amount of such income shall be added to the income of the year when the income was earned.

Books and Records

Section 10.

(1) Private individuals are required to maintain continuous and transparent facilities - in the form of core and supplemental records - to keep chronological records of all data and information that are deemed necessary for fulfilling tax obligations and for controlling compliance with such obligations as provided in Schedule No. 5 and according to the provisions of law, including follow-up audits.

(2) The records of any aid received by a private individual by virtue of legal provision or under international agreement shall be kept in accordance with the requirements laid down in the pertaining legislation or international agreement. Private individuals shall keep records on such aids separately so as to permit control of their use of the aid and the legal grounds of use.

(3) The entry, modification and deletion of any and all data must be substantiated by documents. When a datum contained in the records is modified or deleted, the original datum must remain identifiable after the modification or deletion.

(4) Accounting documents shall be authentic in terms of form and content, shall satisfy all requirements specified in this Act and shall contain all of the data and information necessary for fulfilling tax liability in the Hungarian language as well. Private individuals shall, before the prescribed deadline, document all of the economic events - required for fulfilling the obligations prescribed by regulation and for checking performance - on the basis of which the private individual must, in accord with the provisions of legal regulation, record, change or delete data in the records, except where the responsibility for documentation lies with another person.

(5) Unless otherwise prescribed by law, all accounting documents must bear the private individual's identification data and the signature of the private individual's authorized representative, or the signature of a person to whom such signatory authorization has been duly conveyed (including implied representation as defined in the Civil Code) in order to verify the authenticity and reliability of the form and content of such documents.

(6) Corrections on accounting documents, which must be clearly perceivable on all copies of the accounting document, are permitted only if made by the issuer.

(7) Accounting documents, which are not governed under the Act on Value Added Tax, must contain at least the following items:

a) description;

b) serial number or some other form of identification;

c) the private individual's name, permanent residence (main office or business address), and tax identification number;

d) issuer's name (corporate name), permanent residence (main office or business address), and, where applicable, tax identification code or tax number if the issuer is not the same as the private individual;

e) date of issue;

f) description and classification of the economic event (in particular, the amount received or paid, and the grounds for such payment);

g) date of entry in the records;

h) if the given document pertains to several economic events, an indication of the supporting documents and the period to which the given document pertains;

i) all of the data and information necessary for the performance of tax liability and for control and enforcement.

(8) All accounting documents and records, including any voided documents, must be retained until the right to assess the pertinent taxes expires.

(9) The records required by this Act shall have no effect on any other record-keeping obligation to which the private individual is subject by virtue of other legislation in connection with any other obligation.

Chapter V

PROVISIONS CONCERNING THE ASSESSMENT, DECLARATION AND PAYMENT OF TAX

Assessment of Tax

Section 11.

(1) Private individuals:

a) shall be required to file an income tax return for each year to the tax authority (self-assessment) containing the consolidated tax base and all income of the private individual earned during the tax year which are to be declared and taxed separately, the tax on this income, and the amount of tax payable or refundable calculated from the tax paid in the amount assessed by the payer(s) and the private individual, less the tax advance; or

b) may request - by way of a statement filed in accordance with Section 14 by the deadline prescribed by the Act on the Rules of Taxation - their employers to assess their taxes (tax assessment by the employer).

(2) The provisions contained in Subsection (1) above shall not apply if the private individual received no income during the tax year, or if he received income under the following titles only:

a) income that need not be declared pursuant to the provisions of Subsection (3);

b) non-taxable emoluments;

c) sums paid by a private pension fund to the beneficiary other than pension plan benefits if the pension fund has issued a statement to the payer declaring that such benefits are non-taxable according to this Act; the private pension funds shall disclose such statements to the tax authority by 31 January following the tax year.

(3) Private individuals shall not be required to declare the following:

a) revenues that need not be declared as income;

b) proceeds from the sale of movable property item(s) or real estate property, or from the transfer of rights, if it produces no income;

c) proceeds from the sale of movable property item(s) if the annual amount received thereof is less than 200,000 forints in total;

d) income earned from securities lending arrangements, dividend income, capital gains income, income withdrawn from the business account, and - in the case where tax liability is governed by the rules on dividends - income from life-annuity, if the combined total of such income is not more than 100,000 forints for the entire tax year and the payer has deducted the tax;

e) the income which are taxed separately and are not mentioned in Paragraphs *b)-d)* (excluding income from real estate rental) on which the tax has been deducted by the payer;

f) income that is not taxable in the Republic of Hungary by virtue of international agreement or reciprocity (not including income that is exempt from tax in the Republic of Hungary by virtue of international agreement or reciprocity, but which is to be included in calculating the tax);

g) any income that is not required to be declared by virtue of the provisions of specific other legislation.

(4) Private individuals shall satisfy their tax obligations, if filing according to the provisions on self-assessment:

- a)* by way of a simplified tax return prepared with the assistance of the state tax authority,
 - or
 - b)* by filing a tax return prepared without the assistance of the tax authority, subject to the formal and content requirements specified by the state tax authority,
- in the absence of a statement for tax assessment by the employer or if the employer refused to assess the private individual's taxes.

(5)

Simplified Tax Return Assisted by the Tax Authority

Section 12.

A simplified tax return may be filed - by way of a statement made by the deadline prescribed in the Act on the Rules of Taxation - by any private individual:

- a)* who has had any tax/tax advance deducted from all his taxable earnings received during the tax year by a payer (employer), and/or
 - b)* whose tax liability for the tax year originates from the sale of movable assets or real estate property, or from the transfer of rights,
- furthermore,
- c)* who did not operate during the tax year as a private entrepreneur, and
 - d)* who did not have any income during the tax year from small-scale agricultural activity, and
 - e)* who, save where Paragraph *b)* applies, is not required to file a tax return according to Section 13 (without assistance from the tax authority),

with the exception that a simplified tax return shall not be excluded if the private individual claims any tax allowance, files any statement of instruction relating to his taxes, and - by way of derogation from Paragraph *d)* -, if a small-scale agricultural producer provides a negative statement relating to his income from such activity, or if the income from such activity is not otherwise taxable, moreover - Section 13 notwithstanding - if the private individual has received any income in connection with which he has selected to discharge the obligation of contribution to public revenues in accordance with the Act on Simplified Contribution to Public Revenues.

Tax Return Filed Without Assistance from the Tax Authority

Section 13.

(1) The private individual shall file a tax return prepared without the assistance of the tax authority if:

- a)* he was a private entrepreneur during the tax year;
- b)* he was an agricultural smallholder during the tax year and his income from this activity was taxable, except if he has supplied a negative statement in the simplified tax return, employer assessment relating to his income, or if the income from such activity is not otherwise taxable;
- c)* he has selected flat-rate taxation in connection with private lodging services he has provided during the tax year;
- d)* he has made a request in writing to the payer (employer) for the deduction of expenses when determining the tax advance for any revenues received during the tax year, not including a statement pertaining to expenses which may be claimed without substantiation under this Act;
- e)* he has acquired any income from controlled capital market transactions or swaps during the tax year;
- f)* he has any tax liability (12 per cent) payable for the tax year as assessed on the basis of a tax advance difference according to the provisions on tax advance payments;
- g)* he has earned any income during the tax year that does not originate from a payer, or any other income on which the tax or tax advance has to be assessed by the private individual himself (excluding the proceeds from the sale of movable assets or real estate property, or from the transfer of rights, if the private individual has filed a statement for simplified tax return);

- h)* he is entitled to modify the tax assessed by the payer in his tax return during the tax year;
- i)* he has any income during the tax year that is (also) taxable abroad or that is earned at a place other than the domestic territory as the place of gainful activity;
- j)* he is a non-resident;
- k)* he has any tax liability for the tax year on the divided part of severance pay;
- l)* he writes off any tax during the tax year that was deducted from the dividend advance received prior to the tax year from the tax on approved dividends;
- m)* he is liable to pay special tax under the Act on Simplified Contribution to Public Revenues relating to any income or if he has assumed the obligation of assessment, declaration and payment of simplified contributions to public revenues - that is payable by the private individual and the payer - from the payer;
- n)* he is liable to pay an advance on health care contributions or itemized health care contributions relating to any income;
- o)* his tax shall (may) be assessed in his tax return pursuant to specific provisions of this Act;
- p)* in the cases not mentioned in Paragraphs *a)*-*o)*, taking also into account the provisions of Section 12 and Section 14, if not entitled or not willing to supply a statement for simplified tax return or employer assessment.

(2) Having regard to the incomes of the private individual which are to be taxed separately, the tax on the income that does not originate from a payer or on which the tax has to be assessed by the private individual himself - and if the rules on tax advances do not apply - shall be declared in a tax return prepared without the assistance of the tax authority in the breakdown consistent for the frequency of tax payment obligation (monthly, quarterly); the taxpayers required to file quarterly shall declare the liability as charged to the last month of the quarter.

Tax Assessment by the Employer

Section 14.

(1) The taxes of private individuals who provide a statement - subject to the conditions laid down in this Section - requesting their employers to assess their taxes in accordance with the Act on the Rules of Taxation shall be assessed and declared by their employer (employer of accord to declare personal income taxes). For the purposes of this Section, 'employer of accord to declare personal income taxes' shall also mean a business association or civil association of which the private individual was a member on the day the statement for tax assessment was made on condition that he is not concurrently engaged under contract of employment with another payer and that he is required to participate in person or to provide ancillary services to the business association or civil association based on his membership.

(2) An employer of accord to declare personal income taxes shall assess the private individual's taxable income for the tax year by taking into consideration all of the income that the private individual would be liable to declare by way of self-assessment in the absence of the statement mentioned in Subsection (1), and shall declare and pay the tax on behalf of the private individual. In the event of overpayment, the employer shall refund the amount of overpaid tax to the private individual and shall make out a financial statement on the above transactions.

(3) A private individual shall be entitled to make the statement referred to in Subsection (1) if:

a) he has received income during the tax year that he would otherwise be liable to declare by way of self-assessment only from the employer of accord to declare personal income taxes, including any donation paid to a voluntary mutual insurance fund to the benefit of a private individual by his employer of accord to declare personal income taxes;

b) by way of derogation from Paragraph *a)*:

ba) he has received the income mentioned in Paragraph *a)* during the tax year from consecutive employment, provided that he is able to provide a certificate issued by the previous employer(s) upon the termination of employment to the employer of accord to declare personal income taxes,

bb) he has received the income mentioned in Paragraph *a)* during the tax year for employment with budgetary agencies falling under the same centralized system of payroll accounting from payer(s) within the same centralized system of payroll accounting;

c) has received during the tax year, in addition to the income described in Paragraphs *a)*-*b)*, only taxable social security benefits, family support benefits, remuneration for reserve military service, benefits received

on the basis of the Job Assistance and Unemployment Benefits Act, and pension from the domestic pension system, provided that such income is paid by the employer of accord to declare personal income taxes or the private individual supplies a certificate issued to verify the income to the employer of accord to declare personal income taxes in accordance with the provisions of the Act on the Rules of Taxation.

(4) Entitlement to tax assessment by the employer shall not be excluded:

a) if the private individual claims any tax allowance, or if having issued a voluntary mutual fund statement containing an instruction to have his tax transferred, provided that the private individual provides the certificate of entitlement to claim such tax allowance and the aforesaid statement the employer of accord to declare personal income taxes before the deadline prescribed in the Act on the Rules of Taxation, furthermore, if he has filed an instruction according to specific other legislation relating to his taxes;

b) if an agricultural smallholder who uses itemized expense accounting has issued a negative declaration statement according to this Act to the employer of accord to declare personal income taxes.

(5) Subsections (1)-(4) notwithstanding, the private individual shall not be entitled to issue a statement requesting tax assessment by the employer if:

a) required to file a tax return without assistance from the tax authority, unless Subsections (3)-(4) contain any provisions to the contrary;

b) he claims any consolidated tax exemptions on the grounds of private household services (as well);

c) he has made an individual retirement account statement for the transfer of his tax;

d) he is subject to declaration and repayment obligation for the tax year in connection with special allowances on recurrent donations;

e) he is required to declare and pay tax for the tax year that has been deducted in an increased amount due to an insurance allowance;

f) he is required to declare and pay tax for the tax year that has been deducted in an increased amount due to tax allowance on the amount tied up in his voluntary mutual health fund individual account;

g) he is required to declare and pay tax for the tax year in an increased amount on any payment of non-pension benefits received from his individual retirement account.

Payment of Tax

Section 15.

(1) Private individuals shall pay the tax on their income determined from the revenues received during the tax year - with the tax advance and tax paid on the year's revenues by the private individual, or that is paid (payable) by the employer or payer included - in accordance with the provisions of the Act on the Rules of Taxation.

(2) If the amount of tax advance and tax paid on the year's revenues by the private individual, or that is paid (payable) by the employer or payer is in excess of the tax amount payable on the private individual's revenues for the tax year, the tax authority shall refund the difference in accordance with the provisions of the Act on the Rules of Taxation.

(3) If the tax or tax advance was deducted by the payer, the tax authority may thereafter only demand such advance from the payer.

(4) If a payer has assessed the tax on certain incomes of the private individual which are to be taxed separately, and the tax cannot be deducted, the payer and the private individual shall proceed according to the rules on tax advances.

(5) The investment service provider, in connection with an assignment to transfer securities from the securities account (securities escrow account) of a party to the securities account (securities escrow account) of another party, and if the data pertaining to the persons (parties) to the transaction indicate that either or all of such persons (parties) are private individuals, shall issue a certificate that contains the identification data and tax identification code/tax number of the parties to the contract, the type of securities transferred and their face value, and - if the party on whose behalf the transfer was carried out verifies or declares - the profit made on the transfer of the said securities, furthermore, it shall contain a notice indicating that the tax liability on the income from the transfer of securities and/or received in the form of securities shall be satisfied according to the provisions applicable to the various forms of acquisition of income. This obligation of investment service providers shall not apply to the tax liability of payers if participating in a transaction as a party.

PART TWO
CONSOLIDATED TAX BASE AND THE TAX THEREON

Chapter VI

CONSOLIDATED TAX BASE

Income From Self-Employment Activities

Section 16.

(1) All activities, as a result of which a private individual receives income and which are not included in the sphere of activities other than self-employment pursuant to this Act, shall be considered self-employment activities. Hence in particular, the activities of private entrepreneurs, small-scale agricultural producers, lessors and appointed auditors, the activities of Members of the European Parliament, Members of Parliament and representatives of municipal governments.

(2) Unless otherwise prescribed by law, the portion of revenues received for self-employment activities which is calculated in observation of the provisions of Sections 17-23 shall be considered income.

(3) Self-employment income shall comprise all income earned by a private individual in connection with such activities or in consequence of any legal relationship underlying such activities. The income

a) for which this Act offers varying taxation options and to which the private individual elects to apply the provisions of this Chapter;

b) that, unless otherwise prescribed in this Act, originates from the utilization of movable or immovable property, including the consideration received for the sale of standing (not harvested) crops or produce sold without any change in the ownership of the land in question, noting that in respect of the utilization of joint property, the tax liability - unless stipulated by the owners to the contrary - shall be borne by the person who carries on the activity in question or who is the beneficiary of the gainful activity by title, shall be regarded as revenues from self-employment activities.

(4) In respect of private entrepreneurs using the entrepreneurial income taxation system, entrepreneurial withdrawals claimed as expense for personal work performed during the activities of a private entrepreneur shall be treated as self-employment income, from which no cost or expenses write-offs, or any deductions may be claimed.

(5) Where there is no entrepreneurial withdrawal shown in the books, or if the amount of entrepreneurial withdrawals for the year remain below the annualized sum of the reference wage applicable for the tax year, from the entrepreneurial dividend base the income established according to Subsection (7) shall be treated as self-employment income up to the amount that reaches the amount of the reference wage together with or lacking the entrepreneurial withdrawal (hereinafter referred to as “withdrawal supplement”).

(6) Private entrepreneurs shall assess the amount of withdrawal supplement in the tax return - showing the last day of the tax year as the revenue date - and shall pay the tax on the tax base thereof by the deadline for filing the tax return.

(7) Income assessed from entrepreneurial dividend base, as referred to in Subsection (5), shall include the amount of entrepreneurial income mentioned in Subsections (1)-(2) of Section 49/B that is in excess of operating expenses plus the deductions referred to in Subsection (6), and the amount of deferred losses from previous years and claimed for the current tax year under Subsection (7) of that Section, less:

a) the entrepreneurial tax base of a foreign branch under Subsection (8) of Section 49/B;

b) the tax amount assessed according to Paragraphs a)-b) of Subsection (18) of Section 49/B;

c) the sum referred to in Paragraph d) of Subsection (6) of Section 49/C.

(8) The private entrepreneur shall record the circumstances and criteria applied for determining the reference wage for his trade, and shall file them under the documents related to taxation and shall retain them up to the term of limitation of the right for subsequent tax assessment.

(9) The provisions contained in Subsections (5)-(8) shall not apply if the private entrepreneur selected to discharge the obligation set out in the Act on Simplified Contribution to Public Revenues.

Section 17.

(1) Revenues from self-employment activities shall be taken into account in accordance with the provisions of Schedules Nos. 2 and 4.

(2) The amount received as expense reimbursement in connection with self-employment activities shall constitute a part of the revenues from such activities.

(3)

Section 18.

(1) The following may be deducted from the revenues from self-employment activities when determining income:

a) with the exceptions described in this Act, expenses actually incurred and substantiated during the tax year in connection with the activity, as recognized in accordance with the provisions of Schedule No. 3, up to the amount of revenues produced by such activity (itemized expense accounting), or

b) 10 per cent of the revenues from the self-employment activity (10 per cent expense ratio).

(2) If applying the 10 per cent expense ratio, the private individual may not use itemized expense accounting on any of his revenues generated during the tax year by self-employment activities, nor to the expense reimbursements received with regard to his self-employment activities.

(3) If applying the 10 per cent expense ratio, the depreciation allowance applicable to the purchase or production costs of tangible assets acquired previously or during the period when the 10 per cent expense ratio was applied shall be regarded as claimed in accordance with the provisions of Schedule No. 11. From all deferred losses remaining from the years preceding the application of the 10 per cent expense ratio, 20 per cent for each of the years when the 10 per cent expense ratio was applied shall be considered as claimed.

Section 19.

(1) If a private individual is granted any non-repayable aid in connection with his self-employed capacity by virtue of legal regulation or international agreement for covering operating expenses or for improvements, the revenue date for such income originating from the aid shall be determined according to the provisions of Subsections (2) and (3).

(2) The aid shall be treated as income for the tax year to the extent covered by the amount of expenses funded from the aid - including depreciation write-off - and claimed for the tax year in accordance with the provisions of this Act. If the legal regulation or international agreement under which the aid is granted contains provisions to permit use of the aid to finance certain expenditures which are not recognized as expense items by this Act, the amount used from the aid to finance such expenses in the tax year shall also be treated as income received during the tax year.

(3) In the event that a private individual is required to repay any part of the aid, the amount repaid shall not be treated as income, nor any costs arising out of or in connection with the repayment - such as default interest, late charges or other similar charges - shall not be claimed as expense. Any part of the income already claimed by the private individual under Subsection (2) from the amount that has been repaid may be corrected by a self-revision procedure.

Section 20.

(1) Revenues from the sale of harvested or standing trees from a forest affected by end-use may be reduced by the amount paid into a separate account opened for this purpose by the forestry authority, but only up to the amount of the normative reforestation subsidies available for the completed target volume, as established by law.

(2) From the normative subsidies allocated in proportion to the completion of reforestation and from the amount returned to the debit of the amount paid pursuant to the provisions of Subsection (1), substantiated expenditures may be shown as expenses up to the fifth year of commencement of the reforestation process in respect of locust and soft deciduous species, and up to the eighth year for other species, and a sum up to

the amount of the received normative subsidies may be deducted without verification. The remaining amount, returned later than the time limits set out above, shall be considered as revenues in its entirety.

(3) If the provisions of Subsections (1)-(2) are applied, flat-rate taxation may not be used with respect to the revenues defined therein.

Section 21.

(1) Small-scale agricultural producers using itemized expense accounting may deduct the following from their income from such activities:

a) if employing workers with at least 50 per cent disability, the monthly wages paid to each such employee, not to exceed the prevailing monthly minimum wage in effect on the first day of the month; with respect to apprentice training of vocational school students on the basis of apprenticeship agreement, as described by law, 24 per cent of the prevailing minimum wage for each student and for the month and any fraction thereof, or 12 per cent of the prevailing minimum wage for the month and any fraction thereof if the apprentice training is provided under a cooperation agreement concluded with the vocational school;

b)

(2) A small-scale agricultural producer (for the purposes of this Section hereinafter referred to as 'employer') providing further and continuous employment to a vocational school graduate referred to in Subsection (1), who has successfully completed the professional examination or to a previously unemployed person, or a person released from imprisonment within 6 months from the date of release, or a person released on parole, if not using flat-rate taxation, may deduct the amount of social security contribution paid during such employment, not to exceed a period of 12 months, from the revenues produced by such activities, regardless of whether such amounts can otherwise be claimed as expenses in the case of itemized expense accounting.

(3) An employer may apply the provisions of Subsection (2) with regard to a previously unemployed person, if the employment of another employee working in the same position has not been terminated since the hiring of said previously unemployed person, or within the preceding six months, by regular dismissal, and if the previously unemployed person was not employed by such employer within six months before the date of his hiring.

Section 22.

(1) For the purposes of establishing taxable income, small-scale agricultural producers using itemized expense accounting may claim the expenses incurred during the tax year in connection with such activities up to the amount of revenues, with the items described in Section 21 deducted, and may defer the expenses in excess (hereinafter referred to as 'deferred losses'). Such deferred losses may be claimed according to the provisions of Subsections (2)-(5).

(2) Small-scale agricultural producers may write off deferred losses from their income from small-scale agricultural activities (including any income established by way of self-revision or audit) during any subsequent tax years (ending in the year when the activities are terminated), as divided at the discretion of the small-scale agricultural producer, with the exception that any deferred losses from before 31 December 2003, not yet claimed against income from small-scale agricultural activities may be claimed in accordance with the regulations in effect at the time when they were incurred.

(3) Losses may be deferred for the current tax year without taking into account the deferred losses brought forward from previous year(s). Deferred losses shall be claimed in chronological order. As regards small-scale agricultural producers engaged in joint farming activities, they may write off losses deferred before the commencement of joint activities individually from their income established according to the provisions contained in Schedule No. 6.

(4) Subsection (1) shall apply to losses that were deferred in due observation of the principle of proper execution of the law within its meaning and intent.

(5) Subsection (2) notwithstanding, small-scale agricultural producers may settle any deferred losses retroactively during the tax year for the preceding two tax years by self-revision of the tax return, by deducting an amount determined at the producer's discretion from the income of one of the previous two years or of both years produced by small-scale agricultural activities (including any income established by way of self-revision), however, the said amount may not exceed the amount of deferred losses for both

years. This provision shall apply in the process of tax audit when so instructed by the small-scale agricultural producer. If the above option is not applied, or if only a portion of the losses are settled against the previous two years, for the remaining portion the provisions of Subsections (2)-(3) may be applied.

(6) Agricultural smallholders using itemized expense accounting may claim 40 per cent of the revenues from such activities, with the items described in Section 21 deducted as smallholders' expense allowance, over and above verified expenses. In this case losses may not be deferred until, if so intended, such smallholders' expense allowance is claimed.

(7) The small-scale agricultural producer who also engages in private entrepreneurial activities must

a) consider as small-scale farming revenue the fair market value of agricultural products produced in the course of such agricultural activities and sold in his capacity as a private entrepreneur, noting that in the event of taxation on the basis of entrepreneurial income this value shall be regarded as approved expenses of the private entrepreneurial activity;

b) consider the consideration received for the sale of the products defined in Paragraph a) as revenues from private entrepreneurial activities;

c) keep separate records of the costs of each activity when using itemized cost accounting or taxation based on entrepreneurial income;

d) unless otherwise prescribed in this Act, the expenses incurred in connection with both activities must be divided in proportion to the revenues,

however, the provisions of Paragraphs a)-d) shall apply *mutatis mutandis* if the private individual produces any income from self-employment in addition to the income from small-scale agricultural activities in a family homestead,

Section 23.

Small-scale agricultural producers (including agricultural smallholders using flat-rate taxation) with revenues less than 600,000 forints annually from such activities shall not be required to consider income from such revenues, while if revenues exceed the above amount, income shall be determined based on all revenues included.

Income From Activities Other Than Self-Employment

Section 24.

(1) Activities other than self-employment are:

a) the activities pursued in an employment relationship;

b)

c) personal participation of private individual members of a business partnership;

d) the activities of executive officers of business associations;

e) the activities of officers elected on the strength of legal regulations (except for elected auditors) if they perform these activities not in the capacity of private entrepreneurs;

f) the activities of contributing family members;

g) contract work as defined by international agreement or, in the absence of such, employment as defined under the law of the country in question.

(2) Income earned by activities other than self-employment shall be determined on the basis of the revenues from such activities, in accordance with the provisions of Sections 25-27, and in observation of the transitional provisions as well.

Section 25.

(1) Income from activities other than self-employment shall comprise all income earned by a private individual in connection with such activities or in consequence of any legal relationship underlying such activities. Included are, in particular wages, remuneration or honorarium, and any sums received as bonuses, fuel allowance or expense reimbursement, and any taxable insurance premiums paid by others underlying activities other than self-employment, the salary paid to a private individual member of a

business association who participates in the company's operations (hereinafter referred to as "participating member"), provided that it is shown under the business association's expenses (hereinafter referred to as "salary for personal involvement"). In accordance with Subsection (2), all revenues from activities other than self-employment shall be recognized as income, except for sums received as expense reimbursement in connection with said activities other than self-employment, from which the expenses approved in accordance with the provisions of Schedule No. 3 may be deducted up to the amount received as expense reimbursement.

(2) Income from activities other than self-employment shall be determined excluding the sums received by a private individual from the employer for the commute to and from work in accordance with the government decree on commuting to and from work and in due consideration of Subsections (3)-(4):

a) in connection with travel passes and tickets if accounted in compliance with the above-mentioned government decree, not to exceed the price of the travel pass or ticket (including if provided in the form of reimbursement based upon an invoice made out to the name of the employer); or

b) under the title of expense reimbursement (including in particular if using his own vehicle to commute to and from work):

ba) based on the number of days spent at work and covering the distance on public roads between his place of abode and the work place,

bb) for the travel home on weekends covering the distance on public roads between his place of abode and the work place,
in the amount of 9 forints per kilometer.

(3) Any expense reimbursement in excess of the amount specified in Paragraph *b)* of Subsection (2) shall comprise - unless prescribed by law to the contrary - part of the private individual's income referred to in Subsection (1).

(4) Private individuals may not claim any costs under the title of commute by car for the route between their place of abode and the work place.

(5) Where in a business association that is not taxed under the simplified entrepreneurial taxation system a participating member does not receive any salary for personal involvement or the annualized sum of the reference wage during the tax year, income from activities other than self-employment shall comprise the dividend the said business association has paid to the participating member and/or the dividend advance already paid out for the dividend of the tax year, up to the amount from the total sum of the aforementioned that reaches the annualized sum of the reference wage together with or lacking the salary for personal involvement (in either case hereinafter referred to as "supplementary salary for personal involvement"). In the case of any private individual who is recognized as a participating member in other business associations, or who is engaged in activities as a participating member and as a private entrepreneur, this provision applies in respect of the business association where the reference wage recognized for the main activity is the highest.

(6) Business associations shall verify the amount of supplementary salary for personal involvement by way of a certificate provided to the participating member by 31 January of the year following the tax year to which it pertains, who shall assess the amount of tax on the tax base of the supplementary salary for personal involvement in the tax return - showing the last day of the tax year as the revenue date -, and shall apply the part of the tax deducted (paid) on the dividend to the extent applicable to the supplementary salary for personal involvement as a tax advance deducted (paid). The business partnership shall disclose to the state tax authority the information contained in the certificate by 15 February of the year following the tax year.

(7) Subject to safekeeping requirements up to the term of limitation of the right for subsequent tax assessment:

a) the business partnership shall record the circumstances and criteria applied for determining the reference wage for the activities of participating members;

b) any private individual who is recognized as a participating member in several business associations, or who is engaged in activities as a participating member and as a private entrepreneur, shall record the reference wage for all his activities;
and shall file them under the documents related to taxation.

(8) The provisions contained in Subsections (5)-(7) shall not apply if the participating member selected to discharge the obligation set out in the Act on Simplified Contribution to Public Revenues.

Section 26.

(1) If any revenues from employment pertaining to the previous calendar year or taxable social security benefits are paid - by the employer - by the 15th of January of the following year, such revenues shall be considered as income received on the last day of the previous calendar year.

(2) With the exception set out in Subsection (3), severance pay received due to the termination of employment shall be considered to have been obtained on the day of payment.

(3) Severance pay determined by law or paid by the State, as allocated for one month and the related portion of tax advance deducted shall be taken into account at least as many times as the number of full months elapsed from the termination of employment until the end of the tax year, but no more than the number of months to which the payment pertains. The remaining severance pay, and the relevant part of the tax advance deducted but not more than twelve-times the amount allocated for one month, shall be considered as income earned and tax advance paid in the next tax year. If the full amount of the severance pay is in excess of the amount calculated in this fashion, the remaining amount and the relating tax advance that has been deducted shall be considered as income earned and tax advance paid in the second year following the termination of employment.

(4) Prior to receipt of the severance pay referred to in Subsection (3), private individuals may declare their intention in writing to abstain from applying the provisions of Subsection (3). Any private individual who has any tax liability for the tax year on account of the carry-over of the severance pay referred to in Subsection (3) of this Section may not issue a statement requesting tax assessment by the tax authority.

Section 27.

(1) The following may be deducted from revenues from activities other than self-employment:

a) membership fees deducted (paid) in the tax year to an employee representation group, including the amount paid as a membership fee in a chamber, which cannot be included as an expense due to lack of any own account activity;

b) in accordance with what is contained in Subsection (2), the fuel allowance paid by the employer to an employee or by a business partnership to a member who participates in person in the business partnership's operations as the driver of a vehicle - according to his job function - operated by the employer or the business partnership, calculated based on the actual distance traveled and verified in kilometers, up to the amount of such fuel allowance, not to exceed 100,000 forints per month.

(2) Fuel allowance means the adjusted amount that is less than the portion of the amount calculated by the standard fuel consumption rate - corrected by the relevant adjustment factors - as per the actual distance traveled and verified by a mileage log (travel records, shipping documents) referred to in Paragraph *b)* of Subsection (1), as defined in the government decree on the rate of fuel and lubricant consumption of motor vehicles, agricultural, forestry and fishing machinery that can be claimed without verification, or calculated by the official fuel prices published by the state tax authority that is in excess of the amount determined by the quantity of fuel and the official fuel prices published by the state tax authority as claimed by the employer or by the business partnership on the basis of an invoice or invoices, including the case where the employer or business partnership provides the fuel from its own fuel station to its employees or members and less fuel is used than specified in the standard consumption rate.

Other Income

Section 28.

(1) The concept "other income" shall cover all receipts for which this Act contains no provisions to the contrary in terms of tax liability. The private individual's expenses directly connected to the gainful activities, which are duly substantiated, shall not constitute part of this income with due regard to the provisions governing expense accounts. Other income includes, in particular:

a) non-taxable emoluments;

b)

c) the membership fee supplements refunded by a private pension fund from the member's individual account upon returning to the social security pension system;

d) the sums paid by voluntary mutual pension funds to their members as retirement benefits which are not considered tax exempt under this Act;

e) benefits paid (provided) by voluntary mutual insurance funds, other than those mentioned in Paragraph *d*), with the exception of benefits legitimately provided in the categories and under the conditions laid down in an act which are considered tax exempt under this Act;

f) sums credited by voluntary mutual insurance funds to the individual account of a private individual, with the exception of:

fa) payments made by the member to his own account,

fb) any sums credited from funds which are to be shown under other income or which are not required to be considered part of the private individual's income,

fc) yield of investments made from the safety reserve,

fd) any valuation difference;

g) unless otherwise provided by law, any valuable consideration received by a member of business association in connection with his underlying relationship; the private individual's expenses directly connected to the gainful activities, which are duly substantiated, shall not constitute part of this income.

(2)-(4)

(5) Other income includes:

a) the portion in excess of the consideration paid for the purchase (assignment) of liabilities from purchased (assigned) liabilities, unless this category of tax liability under this Act can otherwise be established;

b) the portion in excess of the cost value and the paid dues of the consideration received for the conveyance of the operating rights defined in the Medical Practices Act that were not previously claimed as expense under depreciation.

(6)

(7) Unless otherwise prescribed in this Act, other income shall include:

a) any sum received in compensation for the establishment, transfer (assignment) or termination of a right, assignment of exercise or the waiver of a right that is in excess of the costs charged, as verified, to the private individual in connection with the acquisition of the right and/or the aforesaid entitlements in question (in connection with a gratuitous or complimentary right, including any income that is deemed taxable at the time the right is acquired);

b) any sum received by the rightholder in the case of exercise of a buy option or other similar right that is in excess of the fair market value effective on the day of transfer of the object to which the right pertains (proceeds from the exercise of the buy option), less the costs charged, as verified, to the private individual in connection with the acquisition of the right (in connection with a gratuitous or complimentary right, including any income that is deemed taxable at the time the right is acquired), however, in the event of the subsequent transfer of the object to which the right pertains:

ba) the income established under this Paragraph, and

bb) the costs charged to the private individual in connection with the acquisition of the right, that is in excess of the proceeds from the exercise of the buy option; shall also be treated as part of the compensation paid for the acquisition of the right;

c) any sum received by the rightholder in the case of exercise of a sale option or other similar right that is in excess of the fair market value effective on the day of transfer of the object to which the right pertains (proceeds from the exercise of the sale option), less the costs charged, as verified, to the private individual in connection with the acquisition of the right (in connection with a gratuitous or complimentary right, including any income that is deemed taxable at the time the right is acquired), however:

ca) the amount of income from the part that remains from the above-mentioned sum received shall be determined according to the provisions applicable to the transfer of the object to which the right pertains, in due observation of what is contained in Subparagraph *cb*),

cb) where Subparagraph *ca*) applies, the sum that is in excess of the proceeds from the exercise of the sale option may be deducted from the costs charged, as verified, to the private individual in connection with the acquisition of the right shown under expenditures incurred in connection with the transfer;

d) any income received upon the exercise of copyright acquired by succession, or the exercise of any right relating to an invention or patent, less the costs charged, as verified, to the private individual in connection with the acquisition of the right.

In either case, the tax liability on the income assessed according to this Subsection shall be governed by the provisions applicable to the various modes of acquisition, and the tax liabilities prescribed upon the

payer and the private individual in question (including, in particular, the assessment, payment and declaration of income, tax amount, tax advance, and the related disclosures), if the legal title for the acquisition of income under this Act can be identified from the contract between the parties affected (the private individual to whom the income was paid, and the other party to the transaction, or between these persons and a third party) taking into consideration the circumstances under which the income was obtained.

(8) If a voluntary mutual pension fund makes any payment (provides any valuable consideration) to a member after the lapse of the compulsory waiting period that is not regarded as pension plan benefits (supplementary pension), the taxable income shall be determined as per the following: the sums paid (provided) in the year when the compulsory waiting period ends and during the next year, not including the sums paid (provided) from the amount credited to the individual account as the return on hedged investments or valuation differentials (hereinafter referred to as "income") shall be reckoned in their entirety, and in the percentages indicated below in subsequent years:

- 90 per cent of the income paid (provided) in the second year,
- 80 per cent of the income paid (provided) in the third year,
- 70 per cent of the income paid (provided) in the fourth year,
- 60 per cent of the income paid (provided) in the fifth year,
- 50 per cent of the income paid (provided) in the sixth year,
- 40 per cent of the income paid (provided) in the seventh year,
- 30 per cent of the income paid (provided) in the eighth year,
- 20 per cent of the income paid (provided) in the ninth year,
- 10 per cent of the income paid (provided) in the tenth year

Any income paid (provided) after the tenth year following the compulsory waiting period need not be taken into consideration for the purpose of determining taxable income.

In connection with any sum paid by a pension fund to its member, that is not considered pension plan benefit (supplementary pension benefit), and credited to the private individual's individual account after 31 December 2007:

a) shall be treated as other income in its entirety, provided that less than ten years have lapsed between the time when it was credited and the time when it was paid (provided);

b) for the purposes of assessment of income under this Subsection, the last year of the compulsory waiting period shall be the tenth year following the calendar year when the sum(s) in question had been credited - this year being counted as the first year -, noting that payment of the sum(s) that were credited initially shall be presumed to have been realized.

(9) Other income shall also comprise sums paid by a private pension fund to its member which are not considered pension plan benefits.

(10)-(11)

(12) Other income includes any interest and dividends paid by a legal person or other organization established in a low tax-rate state or by a controlled foreign company (for the purposes of this Section hereinafter referred to collectively as "controlled nonresident taxpayer"), or by a payer acting for a controlled nonresident taxpayer, and any fraction of the proceeds received in connection with the conveyance of securities issued by a controlled nonresident taxpayer that is in excess of the amount spent on the acquisition of said securities. The expenditure for the acquisition of securities shall be determined in compliance with the provisions on capital gains. Moreover, other income shall include any interest paid by a resident of a state with which the Republic of Hungary has no agreement on double taxation concerning the income and wealth tax system.

(13) Other income also includes the proceeds received by a private individual upon the dissolution of a controlled nonresident taxpayer in which the private individual holds any interest (shareholder or partnership interest) or through disinvestment from the subscribed capital of the controlled nonresident taxpayer that is in excess of the expenditures made in connection with the acquisition of stocks or shares of the controlled nonresident taxpayer or other similar securities or rights. Moreover, the proceeds received by a private individual upon the termination of his participation (shareholder or partnership interest) in a controlled nonresident taxpayer by ways other than the conveyance of his stocks or shares in the controlled nonresident taxpayer or other similar securities or rights, that is in excess of the expenditures made in connection with the acquisition of stocks or shares of the controlled nonresident taxpayer or other similar securities or rights. The expenditure for the acquisition of securities (controlling rights) and the date of the

acquisition of income shall be determined, respectively, in compliance with the provisions on income from capital gains and on income withdrawn from the business account.

(14) In the case of conveyance of securities and other assets, the fraction of the income received in compensation for the conveyance that is in excess of the known fair market value prevailing at the time of the transaction shall be deemed other income, unless this category of tax liability under this Act can otherwise be established.

(15) With regard to any income obtained through insider dealing or through unfair or fraudulent manipulation of prices as defined in the Act on the Capital Market, the fraction that is in excess of the expenses incurred and verified in connection with such profits shall be deemed other income.

(16) With regard to any income obtained through the conveyance of real estate or rights in immovables (Section 59), if the property is located in a state with which the Republic of Hungary has no agreement on double taxation concerning the income and wealth tax system, the fraction that is in excess of the amount spent on the acquisition of said real estate or right [Subsections (2)-(3) of Section 62] shall be deemed other income.

(17) In connection with any sums paid (provided) or transferred, which are not considered pension plan benefits according to the Act on Individual Retirement Accounts (hereinafter referred to collectively as “non-pension benefits”), ‘other income’ shall mean (unless it does not have to be established pursuant to specific provisions) the part of the balance shown in the individual retirement account before the value of this service is deducted and that is calculated at fair market value (hereinafter referred to as “adjusted claims”), which is in excess of the combined total of the deposits the account-holder has made (in connection with any taxed claims on record, after they are recorded), any dividend income and sums transferred to the private individual’s individual retirement account based upon the instruction of the private individual, including the taxed claims on record, where:

a) the date of the acquisition of this income shall be the date when the account-holder has placed an order for the payment of any non-pension benefit;

b) this income is not subject to any payment of tax advance, and the account-holder shall assess, declare and pay the tax by way of self-assessment;

c) the institution where the individual retirement account is maintained shall issue a certificate to the private individual concerning the acquisition of this income in accordance with the provisions of the Act on the Rules of Taxation;

d) taxed claims shall mean adjusted claims, less any payment of non-pension benefits that the institution managing the account is henceforward required to record as such and shall recalculate it after each subsequent payment of non-pension benefits.

(18)

(19) Family allowance received shall not be treated as taxable income.

a)-e)

d) by the next of kin of a child or any person functioning as the appointed guardian, in respect of the child placed under his care, or if provided to a person indicated as eligible for family allowance in the guardian authority’s resolution authorizing the child’s removal from parental care;

(20) Where a private individual maintains membership in a controlled foreign company, and/or he/she has a direct participation or voting right in such company by way of another company or companies effective on the last day of tax year (financial year) of this company, and the participating interest/direct participation or the percentage of voting rights/direct voting rights held in such company by the private individual him/herself and by his/her close relatives (Civil Code, Paragraph *b)* of Section 685) collectively reach 25 per cent, the sum allocated to the private individual from the controlled foreign company’s after-tax profit shown for the last day of its tax year (financial year), less any dividend distributed, paid to the private individual according to his/her indirect and/or direct share shall be recognized as other income. Private individuals shall keep records on the aggregate amount of their income established according to this Subsection, taking into consideration of what is contained in Subsection (21). For the purposes of this provision:

a) ‘indirect holding, indirect voting right’ shall mean participation calculated according to Paragraph *b)* and expressed as a percentage rounded off to two decimal places;

b) ‘extent of holding/voting right’ shall mean the holding/voting right controlled by the private individual in the company of indirect holding/voting right multiplied by the holding(s)/voting right(s) in an intermediate company or companies, however, if the holding/voting right in the intermediate company is higher than fifty per cent, it shall be taken into consideration as a whole;

c) 'company of indirect holding/voting right' shall mean a company in which the private individual has any direct holding/voting right carrying an entitlement to indirect holding/voting right;

d) 'intermediate company' shall mean a company in which the private individual's company of indirect holding/voting right has direct holding/voting right, or indirect holding/voting right by way of another company or companies;

e) 'date of acquisition of income' shall mean the day when the company's taxed profit is approved by the appropriate body (members' meeting, general meeting, or other similar bodies).

(21) According to the records referred to in Subsection (20), the sum shown in the records shall be decreased by the following, and:

a) the income received

aa) from a controlled foreign company in the case of direct holding,

ab) from a company of indirect holding, in the percentage of such indirect holding in the form of dividends, distributed profits or the like, not exceeding the sum shown in the records (carried over) after taxes shall not be claimed as income;

b) in connection with the transfer of holdings in a controlled foreign company or in a company of indirect holding for consideration, or the withdrawal of such holdings from the company, and in the case of termination of the company without succession, the cost of acquisition of the holding shall be increased by a portion of the income shown in the records (carried over) consistent with the transferred, withdrawn or terminated holding, where the taxable income shall be determined in compliance with the provisions on income from capital gains and on income withdrawn from the business account.

(22) Subsection (21) shall also apply in the cases described in Subsections (12)-(13) *mutatis mutandis*.

Consolidated Tax Base

Section 29.

(1) The consolidated tax base includes all income earned by a private individual during the tax year by self-employment and by activities other than self-employment, as well as other income, furthermore, in connection with flat-rate taxation the standardized income calculated from revenues from private entrepreneurial and all agricultural smallholders' activities, plus the sums to be added to the tax base according to Subsections (3)-(4). Non-taxable emoluments shall be added to the tax base according to the time of payment (provision). If the private individual is required to pay social security contributions and health care contributions on this income (except if these contributions are shown under expenses or if he is reimbursed), in the application of Subsections (3)-(4), 78 per cent of the income established shall be taken into consideration.

(2) Income earned abroad, as described in Subsection (1), shall constitute a part of the consolidated tax base:

a) in the absence of an international agreement, or

b) if the inclusion thereof is stipulated by international agreement.

(3) The sums to be added to the tax base as referred to in Subsection (1) shall comprise the sum calculated on the income defined in Subsection (1) - exclusive of non-taxable emoluments - by the standard rate of social security contribution under the Act on the Eligibility for Social Security Benefits and Private Pensions and the Funding for These Services, or - in the absence of any requirement for compulsory insurance - by the rate of health care contribution to be charged on income comprising part of the consolidated tax base according to the Act on Healthcare Contributions (hereinafter referred to collectively as "tax base supplement").

(4) The amount of tax base supplement shall be determined according to Subsection (3) irrespective of the tax base supplement that was applied for the calculation of tax advance in the tax return or employer assessment.

Chapter VII

TAX ON THE CONSOLIDATED TAX BASE

Tax Rates

Section 30.

The tax payable on the consolidated tax base shall be:

- a)* if the consolidated tax base did not exceed 5 million forints, 17 per cent of the consolidated tax base;
 - b)* if the consolidated tax base is higher than 5 million forints, 850,000 forints plus 32 per cent of the amount over 5 million forints;
- (hereinafter referred to as “tax rate provision”).

Tax on the Consolidated Tax Base

Section 31.

The tax payable on the consolidated tax base shall be determined from the tax calculated by applying the tax rate provisions (hereinafter referred to as “calculated tax”) in accordance with the provisions of Sections 32-34.

Inclusion of Tax Paid Abroad

Section 32.

(1) To the extent that any income - other than non-taxable emoluments - on which the private individual has paid taxes abroad, which are compatible to income tax, and to which no stipulations in international agreements or reciprocity agreements apply is also included in the consolidated tax base of the tax year, then the calculated tax shall be reduced by 90 per cent of the tax paid on the income abroad, or by the tax calculated for this income by the average tax rate, whichever is lower. The average tax rate shall be determined by dividing the calculated tax by the consolidated tax base, expressed in percentage rounded off to two decimal places. Any sum that is to be refunded to the private individual from the income tax by virtue of an act, international agreement, reciprocity or foreign law may not be taken into account under the title of tax paid abroad.

(2) Private individuals using flat-rate taxation shall apply the provisions contained in Subsection (1) in respect of their presumptive income, other than non-taxable emoluments, calculated from revenues on which the private individual has paid taxes abroad - which are compatible to personal income tax.

Tax Credit

Section 33.

(1) Tax credit may be deducted from the calculated tax, that is:

a) 17 per cent on the total amount of the wages received during the tax year plus the applicable tax base supplement, not to exceed 15,100 forints per each month of eligibility, provided that the private individual's total income for the tax year does not exceed the eligibility limit referred to in Subsection (3);
or

b) part of the amount calculated in accordance with Paragraph *a)* that is in excess of 12 per cent of all income above the eligibility limit, if the annual gross income of the private individual during the tax year falls between the eligibility limit and the eligibility limit plus 1,510,000 forints.

(2) A month of eligibility shall be the month for which the private individual was due to receive wages in the tax year. The month for which the private individual was due to receive wages more than once and/or from more than one payer, shall be regarded as one month of eligibility. One tax year shall include no more than 12 months of eligibility.

(3) The eligibility limit for a tax year is 3,188,000 forints.

Section 33/A.

Deduction of Tax on Non-taxable Emoluments

Section 34.

(1) The sum calculated by the tax rate provision on the aggregate amount of non-taxable emoluments shall be deducted from the calculated tax.

(2) The calculated tax shall be decreased by the amount of tax established by the highest tax rate according to the tax rate provision, on the tax base calculated from the sums paid by a private pension fund to the beneficiary that is not considered pension plan benefits, not to exceed the amount of calculated tax itself.

Chapter VIII

ITEMIZED DEDUCTIONS FROM THE CONSOLIDATED TAX BASE, INSTRUCTIONS REGARDING TAX

Sections 35-38.

Allowances on Certain Specific Activities

Section 39.

(1) The collective amount of the tax of the annual income of a small-scale agricultural producer, using itemized expense accounting or 10 per cent expense ratio, earned by such activities and, if using itemized expense accounting, of the bookkeeper's fee allowance, but no more than 100,000 forints (small-scale agricultural producers' tax allowance), may be deducted from the tax of the consolidated tax base. The bookkeeper's fee allowance shall apply for the fees paid - and verified by receipt - to a bookkeeper, however, only in the percentage represented by the income earned by small-scale agricultural activities within the consolidated tax base. The tax on the income earned by small-scale agricultural activities shall be calculated as having to determine the tax of the consolidated tax base with and without such income, and the difference between the two tax amounts shall be determined. The above-specified tax allowance may be claimed subject to the private individual having to indicate his/her registration number assigned by the body in charge of agricultural and regional development aid for the purposes of client identification. The allowance claimed under this Subsection - for the purposes of the provisions governing state subsidies - shall be treated as de minimis agricultural aid received for the tax year.

(2)

(3)-(4)

Personal and Family Allowances

Section 40.

(1) In respect of severely handicapped private individuals, on the basis of a statement verifying such condition, an amount equal to 5 per cent of the prevailing monthly minimum wage in effect on the first day of the tax year (personal allowance) may be deducted each month from the tax on the consolidated tax base, as of the first day of and for the duration of the disability.

(2) The right-holder shall be entitled to claim family tax allowance in connection with the beneficiary dependent from the tax on the consolidated tax base according to the provisions of Subsections (3)-(12) of this Sections and the provisions of Sections 42-43.

(3) The family tax allowance for each beneficiary dependent per month of eligibility shall be 4,000 forints, provided that the number of dependents does not fall below three on any given day of the month.

(4) For the purposes of this Section, 'month of eligibility' shall mean the month for which family allowance or disability benefits are provided. In respect of a fetus, it means the month of pregnancy during which eligibility prevails for at least one day according to the medical diagnosis of pregnancy, except the month when eligibility for family allowance commences due to birth. The tax authority may request to review the medical certificate diagnosing pregnancy.

(5) When determining the amount defined under Subsection (3), the number of dependents shall include, in addition to beneficiary dependents, the persons who are to be reckoned for the purpose of determining the amount of family allowance in accordance with the provisions of the Family Assistance Act (hereinafter referred to as 'dependents').

(6) The family tax allowance shall be granted to private individuals who are eligible for family allowance according to the Family Assistance Act as well as to pregnant women and their spouses living in the same household. The family tax allowance, however, shall not be granted to private individuals who receive family allowance as the guardian and authorized custodian or ad hoc conservator for children (persons) cared for in a children's home or juvenile facility or placed in a correctional institution. Nor shall the family tax allowance be given to the head of a social institution if he receives the family allowance for children (persons) placed in that institution.

(7) If the beneficiary dependent would himself be eligible for the family tax allowance in accordance with the provisions laid down in Subsection (6), or if the beneficiary dependent is a private individual who receives disability benefits, one of the private individuals living in the same household shall, in accordance with their decision, be considered eligible.

(8) As a prerequisite for receiving the family tax allowance, the natural identification data and home address, or the tax identification code of the dependents shall be indicated in the tax return; in respect of fetuses (twin fetuses), a certificate of pregnancy shall be accepted instead.

(9) The family tax allowance can only be claimed once for any given beneficiary dependent, but the recipient shall share it at the end of the tax year with his/her spouse or domestic partner living in the same household (including also if the beneficiary is unable to claim any part of the family allowance), if neither of the spouses have claimed any family allowance as a single parent and if sharing the allowance is duly indicated in their tax returns along with the other party's tax identification code.

(10) If pregnancy (whether single or twin) is diagnosed after the tax return is filed, the family tax allowance granted on the basis of pregnancy may be claimed for the months of eligibility remaining in the tax year by self-revision - in due observation of the provisions of this Section.

(11) The family tax allowance granted in connection with the dependents referred to in Subsection (7) may be claimed in accordance with this Section regardless of the recipient for whom it was claimed when determining the tax advance.

(12) The provisions of this Section shall also apply to beneficiary dependents in any EEA Member States.

Section 41.

(1) The tax on the consolidated tax base shall be reduced by:

- a)* the average amount of entrepreneurial income tax applicable to the withdrawal supplement;
- b)* the average amount of corporate tax applicable to the supplementary salary for personal involvement.

(2) For the purposes of Subsection (1):

a) the average amount of entrepreneurial income tax applicable to the withdrawal supplement shall be determined by multiplying the sum of the withdrawal supplement by the quotient - rounded off to two decimal places - of the average entrepreneurial income tax established for the tax year according to Subsections (9)-(10) of Section 49/B relative to the tax base;

b) the average amount of corporate tax applicable to the supplementary salary for personal involvement shall be determined by multiplying the sum of the supplementary salary for personal involvement by the quotient - rounded off to two decimal places - of the corporate tax established, minus tax allowances, for the tax year previous to the tax year when the income was obtained.

(3) Business partnerships shall indicate the quotient specified in Subsection (2) in the certificate made out on the supplementary salary for personal involvement.

Limitations on Tax Allowances

Section 42.

(1) Where the gross annual income of a private individual does not exceed 7,620,000 forints, he shall be entitled to claim small-scale agricultural producers' tax allowance in the amount calculated according to Section 39, or if the aforesaid amount limit is exceeded he shall be entitled to claim from the amount calculated according to Section 39 only the part that is in excess of 15 per cent of the amount above the amount limit.

(2) Where the gross annual income of a private individual exceeds the amount limits set out in Paragraphs *a)-e)* of this Subsection, he shall be entitled to claim family tax allowance in proportion to the sum that is in excess of 15 per cent of the amount above the limit. For the purposes of this Subsection the following limits shall apply:

a) 7,620,000 forints, if the number of dependants has reached three persons on any day of the tax year, however, it did not exceed that number on any day of the tax year;

b) 8,255,000 forints, if the number of dependants has exceeded three persons on any day of the tax year, however, it did not exceed four persons on any day of the tax year;

c) 8,890,000 forints, if the number of dependants has exceeded four persons on any day of the tax year, however, it did not exceed five persons on any day of the tax year;

d) 9,525,000 forints, if the number of dependants has exceeded five persons on any day of the tax year, however, it did not exceed six persons on any day of the tax year;

e) 10,160,000 forints, if the number of dependants has exceeded six persons on any day of the tax year.

Section 43.

The itemized deductions from the tax on the consolidated tax base, claimed according to this Act, may not exceed the amount of tax on the consolidated tax base.

Sequence of Tax Exemptions

Section 44.

(1) Where a private individual is entitled to several different types of tax allowances, they shall be considered claimed in the tax return filed without assistance from the tax authority or in the tax assessment prepared by the employer in the sequence the private individual has indicated, or failing this, and in a simplified tax return filed with the tax authority's assistance in the following sequence, up to the relevant limits prescribed for tax deductions:

1. carry-over housing allowance relating to home loan installments,

2. personal allowance,

3-4.

5. small-scale agricultural producers' allowance,

6. family tax allowance,

7. other.

(2)-(3)

Disposition of Tax

Section 44/A.

(1) Private individuals who are members of any voluntary mutual insurance fund may convey an instruction in their statements made in their tax returns, or in their statement provided to the employer in the case of tax assessment by the employer regarding the transfer of sums from the part of the tax payable

on the consolidated tax base that remains following the deductions of tax allowances as (voluntary mutual fund statement):

a) 30 per cent of the combined total of the sums the private individual has paid into the voluntary mutual pension fund(s) of membership during the tax year, and the sums credited to the private individual's individual account that is treated under this Act as other income of the private individual, not to exceed 100,000 forints per tax year (130,000 forints if the private individual reaches the retirement age before 1 January 2020 according to the relevant legal regulations);

b) 30 per cent of the combined total of the sums the private individual has paid into the voluntary mutual health fund(s) and mutual aid fund(s) of membership during the tax year, and the sums credited to the private individual's individual account that is treated under this Act as other income of the private individual, not to exceed 100,000 forints per tax year (130,000 forints if the private individual reaches the retirement age before 1 January 2020 according to the relevant legal regulations), or maximum 120,000 forints per tax year on the aggregate (150,000 forints if the private individual reaches the retirement age before 1 January 2020 according to the relevant legal regulations);

c) Paragraphs *a)*-*b)* notwithstanding:

ca) 10 per cent of the balance on the individual account of a private individual member of a voluntary mutual health fund, if tied up during the tax year by instruction of the member for a minimum term of 24 months, as it stands tied up on the last day of the tax year;

cb) 10 per cent of the sum paid by the voluntary mutual insurance fund during the tax year on instruction of the private individual from his individual account as consideration of a preventive service defined in a specific government decree,

on condition that the amount transferred on the basis of Paragraphs *ca)*-*cb)* and Paragraph *b)* may not exceed 100,000 forints per tax year (130,000 forints if the private individual reaches the retirement age before 1 January 2020 according to the relevant legal regulations), and the total amount transferred, including the eligibility conferred under Paragraph *a)*, may not exceed 120,000 forints per tax year (150,000 forints if the private individual reaches the retirement age before 1 January 2020 according to the relevant legal regulations).

(2) The tax authority shall effect the transfer of the sum(s) the private individual has indicated in the voluntary mutual fund statement - if the private individual has no outstanding tax liability owed to the state tax authority and if having paid the tax payable as indicated in his tax return, in accordance with the provisions of the Act on the Rules of Taxation pertaining to income tax refunds, or within thirty days following payment, at the taxpayer's request, of the outstanding tax liability or the tax payable as indicated in the tax return or as assessed by the tax authority where applicable -, with the exception specified in Subsection (6), to the voluntary mutual insurance fund's - or its predecessor's - current account, in connection with which the fund has supplied a certificate verifying movements on the account during the tax year, such as deposit, credit, funds tied up underlying the private individual's right of disposition. Only one fund may be indicated regardless of how many are actually available. If the fund is wound up or liquidated or if its activities are suspended, the private individual - by way of derogation from the above provision - may lodge a statement for requesting to have the transfer carried out upon the tax authority's notice to the account of another voluntary mutual insurance fund in which he maintains membership, or failing this to his own current account (home address). If the private individual's membership in the fund indicated has been terminated in the meantime, the fund shall transfer the money received:

a) when the private individual transfers to another fund, to this new fund;

b) in connection with the termination of membership due to the payment of pension benefits to the private individual without any further instruction;

c) in the event of the private individual's death, to the beneficiary (beneficiaries) without any further instruction, or if there is no beneficiary or heir, the amount shall devolve upon the fund and it shall be distributed among the individual accounts of members in accordance with the Act on Voluntary Mutual Insurance Funds;

d) in the cases not mentioned in Paragraphs *a)*-*c)*, the fund shall transfer the money back to the account of the tax authority opened for this specific purpose, where the private individual may lodge a claim for the amount returned to the tax authority if able to verify that his membership was terminated due to reasons beyond his control.

(3) Private individuals shall make the voluntary mutual fund statement having in possession the certificate issued by the voluntary mutual insurance fund in accordance with the provisions of the Act on the Rules of Taxation pertaining to certificates for entitlement to claim tax allowance, that contain the

amount underlying the right of disposition (including the amount of taxable credits recognized as other income) and the percentage for determining the amount of eligibility, broken down per titles, and the name and current account number of the fund indicated according to Subsection (2). The voluntary mutual insurance fund shall notify the tax authority on the issue of such certificates, and the voluntary mutual insurance fund shall notify the tax authority where funds are prematurely withdrawn from a tied-up account referred to in Paragraph *ca*) of Subsection (1) within 24 months from the date when tied up, before the deadline prescribed for data disclosure in connection with tax allowance certificates in the Act on the Rules of Taxation.

(4) The amount transferred in accordance with Paragraph *ca*) of Subsection (1) shall be declared in the tax return filed for the tax year increased by twenty per cent, and shall be paid by the deadline prescribed for filing the tax return if the private individual has withdrawn all or part of the funds from the tied up account within the aforementioned time period.

(5) A statement on the strength of a certificate issued by the voluntary mutual pension fund(s) may also be made according to Subsections (1)-(4), if other legal requirements are satisfied, by a private individual who is no longer a member of the voluntary mutual pension fund at the time of exercising this right on account of requesting pension benefits. The tax authority shall effect the transfer of the sum indicated in this statement - if the private individual has no outstanding tax liability owed to the state tax authority and if having paid the tax payable as indicated in his tax return, in accordance with the provisions of the Act on the Rules of Taxation pertaining to income tax refunds, or within thirty days following payment of the outstanding tax liability or the tax payable in the tax return where applicable - to the address (account) that the private individual has indicated.

(6) With the exception of the case mentioned in Subsection (5), any private individual who is not a member of a voluntary mutual pension fund may not make a voluntary mutual fund statement.

Section 44/B.

(1) Private individuals with an individual retirement account may convey an instruction in their statements made tax returns - also if having terminated the individual retirement account before making the statement upon becoming eligible for pension plan benefits, however, the individual retirement account in question was not yet cancelled on the last day of the year when the payment underlying the instruction was effected - regarding the transfer of 30 per cent of the sum they have paid into an individual retirement account in the legal tender of the Republic of Hungary, not to exceed 100,000 forints per tax year (130,000 forints if the private individual reaches the retirement age before 1 January 2020 according to the relevant legal regulations) from the part of the tax payable on the consolidated tax base that remains following the deductions of tax allowances (individual retirement account statement).

(2) The tax authority shall effect the transfer of the sum(s) the private individual has indicated in the individual retirement account statement, if the private individual has no outstanding tax liability owed to the state tax authority and if having paid the tax payable as indicated in his tax return, in accordance with the provisions of the Act on the Rules of Taxation pertaining to income tax refunds, or within thirty days following payment, at the private individual's request, of the outstanding tax liability or the tax payable as indicated in the tax return where applicable, to the institution where the individual retirement account that the private individual is held, or if the individual retirement account was already terminated before making the statement in consequence of requesting pension plan benefits, to the address (account) indicated in the statement, or if it was terminated after the private individual has filed the statement but before the payment was effected, after the funds are transferred back to the account of the tax authority opened for this specific purpose, upon request to the address (account) indicated therein, with the exception that such disbursement may not be effected to any other (new) individual retirement account.

(3) Private individuals shall make the individual retirement account statement having in possession the certificate issued by the manager of the institution where the individual retirement account is maintained in accordance with the provisions of the Act on the Rules of Taxation pertaining to certificates for entitlement to claim tax allowance, that contains the amount underlying the right of disposition.

(4) If during the tax year the private individual requested any payment of non-pension benefits from his individual retirement account:

- a*) the statement referred to in Subsection (1) may not be made in the private individual's tax return; and
- b*) the sum or sums transferred on the strength of his individual retirement account statement(s) (in connection with any taxed claims on record, after they are recorded) - based on the certificate issued by the

institution where the individual retirement account is maintained - shall be declared in the tax return filed for the tax year increased by twenty per cent, and shall be paid by the deadline prescribed for filing the tax return.

(5) The provisions of Subsection (4) shall not apply, and no part of the adjusted claims shall be shown under other income if the private individual transfers the funds available in money instruments or financial instruments on his individual retirement account that is being terminated in its entirety to a long-term investment account, tied up under a long-term investment contract according to the provisions on income from long-term investments (provided that all other conditions are satisfied), and places the funds hence converted into the register of time deposits, however, irrespective of the provisions set out in this Section:

a) no individual retirement account statement shall be accepted in connection with the funds deposited during the year of conversion, and

b) the sum transferred on the strength of his statement(s) of instruction during the year of conversion and during the previous year shall be declared in the private individual's tax return filed for the year when the conversion took place, increased by 20 per cent, and shall be paid by the deadline prescribed for filing the tax return [unless it has already been paid under Paragraph *b)* of Subsection (4)],

where

1. in the application of the provisions on income from long-term investments, tied-up funds shall mean the sum shown as the account balance at the fair market value prevailing on the day of conversion, furthermore, the year when the conversion took place shall be recognized as the calendar year of the deposit;

2. the fair market value in effect on the day of transfer or the acquisition value, whichever is greater, may be claimed as the cost of the financial instruments;

3. if the long-term investment contract is concluded with an investment service provider or credit institution other than the one that maintains the individual retirement account, the provisions of Paragraph *a)* of Subsection (7) shall apply.

(6) The provisions of Subsection (4) shall not apply, and no part of the adjusted claims shall be shown under other income if the private individual transfers - in accordance with what is contained in Subsection (7) - the funds available in money instruments or financial instruments on his individual retirement account:

a) to another individual retirement account opened at another institution in its entirety immediately upon closing the previous account;

b) to a securities account he maintains with an investment service provider authorized for trading in securities, with a view to carrying out his order for the sale of securities held in individual retirement securities account, if the institution carrying his securities account has no entitlement for trading in securities;

c) transfers securities from his individual retirement securities account due to conversion or the transformation of the issuer to a securities account he maintains with an investment service provider that participates in the conversion or transformation process.

(7) For the purposes of Subsection (6):

a) the transfer referred to in Paragraph *a)* may be carried out on condition that the carrier of the terminated account shall supply information based on its records to the other account carrier, broken down as follows, on the aggregate sums of:

aa) taxed claims (if contained in its records),

ab) payments made by the private individual,

ac) dividend credits,

ad) sums transferred on the basis of an individual retirement account statement,

whereas, if any taxed claims are indicated, it shall contain only the ones credited after they were recorded in the aggregate sums referred to in Paragraphs *ab)-ad)*;

b) in the case of conversion under Paragraph *b)*, Subsection (4) shall not apply only if the investment service provider participating in the transaction has transferred the sum shown in the certificate of execution of the order for the sale of securities within thirty days following the day of conversion, or within the time limit prescribed on the strength of law for the transaction to the private individual's retirement account, or failing this the private individual has paid up the sum equivalent to the fair market value in effect on the day of transfer of the securities, however, the sum transferred or paid shall not be recognized as a payment carrying entitlement for making an individual retirement account statement;

c) in the case of conversion under Paragraph *b)*, Subsection (4) shall not apply only if the investment service provider that participates in the conversion or transformation process has in fact transferred the

exchanged securities within the time limit prescribed for the transaction to the private individual's securities retirement account.

(8) Account managers shall disclose information to the state tax authority by 15 February following the tax concerning:

a) any statements of private individuals relating to the designation "NYESZ-R", indicating the date of the statement;

b) the contents of certificates issued for individual retirement account statements according to Subsection (3);

c) any payment of non-pension benefits, other income assessed and verified for a private individual, and regarding the payment obligation specified in Paragraph *b)* of Subsection (4);

d) any account terminated according to Subsections (5)-(6) and concerning the contents of the certificates issued according to Subsection (7).

(9) Managers of individual retirement accounts shall devise and operate a records system to contain adequate facilities for the production of any data and information which would be relevant for the purposes of implementation of the provisions of this Section, and for the assessment of other income in connection with non-pension benefits.

(10) If a private individual has several active individual retirement accounts, for the purposes of this Act only the individual retirement accounts indicated in a single statement - the first one given - shall be treated as individual retirement accounts for as long as the agreement for managing the account so indicated exists. Where several statements are issued and executed on the same date, none of them will be considered valid.

(11) If, from the information received according to Paragraph *a)* of Subsection (8) and according to Subsection (9) the tax authority arrives at the conclusion that the designation "NYESZ-R" is used unlawfully for an account, the private individual affected shall be liable to pay the resulting tax debt and its penalties based on the resolution delivered by the tax authority.

Section 44/C.

(1) Where a private individual has included instructions for the transfer of a specific portion of his tax in the voluntary mutual fund statement and in the individual retirement account statement as well, however, the amount that remains in his tax on the tax base after having deducted the tax allowances is insufficient to cover them both, the tax authority shall proceed in consideration of the proportion of the sums that have rightfully been indicated in the statement, nevertheless, the amount of any given transfer may not exceed the amount limit specified for the title of disposition in question.

(2) The amount transferred by instruction of the private individual conveyed in the voluntary mutual fund statement or the individual retirement account statement shall not be subsequently altered as consistent with any changes in the amount of tax on the private individual's consolidated tax base remaining after deduction of tax allowances upon the self-revision conducted by the private individual or upon subsequent tax assessment by the tax authority. However, if the amount of tax on the private individual's consolidated tax base remaining after deduction of tax allowances is diminished by the self-revision or subsequent tax assessment to an extent that it no longer covers the amount transferred, the tax authority shall reclaim such difference under the title of personal income tax liability.

(3) The tax authority shall not adopt a resolution concerning the difference referred to in Subsection (2) if it does not exceed five thousand forints.

(4) The voluntary mutual fund and the institution where the individual retirement account is maintained shall be required to indicate their own current account numbers on the certificate issued to the private individual.

Section 45.

Private individuals may issue a statement of instruction regarding a specific portion of the tax on the consolidated tax base (paid tax) that remains (after deductions of tax allowances in the application of another act) and the sums transferred as instructed in the voluntary mutual fund statement and the individual retirement account statement, which shall be transferred by state tax authority to the beneficiary or beneficiaries, to the extent and in the manner prescribed in another act.

Chapter IX

ASSESSMENT, DECLARATION AND PAYMENT OF TAX ADVANCE

Tax Advance Payment Liability

Section 46.

(1) Any provision to the contrary notwithstanding, the tax on the consolidated tax base, and the entrepreneurial income tax shall be paid as a tax advance subject to subsequent confirmation in the tax return or in the employer's tax assessment.

(2) No tax advance shall be paid:

a) on non-taxable emoluments;

b) on sums paid by a private pension fund to the beneficiary other than pension plan benefits, on condition that the private individual declares at the time or before receiving the payment that this payment, according to the provisions of this Act, shall not entail any tax liability on his part for the tax year;

c) on the tax base established relating to any payment of non-pension benefits received from an individual retirement account;

d) on taxable amounts credited by voluntary mutual insurance funds to the individual account of a private individual, if treated as other income;

e) on any income from a state - as the place of gainful activity - with which the Republic of Hungary has no agreement on double taxation;

where the tax on the incomes mentioned in Paragraphs *a)*-*e)* shall be determined by the private individual in the tax return, and shall be paid by the deadline for filing the tax return.

(3) If the income that is considered part of the consolidated tax base is received from a payer, the tax advance on such income shall be assessed by the payer in accordance with what is contained in Subsection (4) (hereinafter referred to as "payer liable to assess the tax advance").

(4) Payers shall not be required to assess the tax advance on income paid as invoiced by a private individual who is subject to invoicing obligation, not in the capacity of a private entrepreneur or a small-scale agricultural producer, or if paid on a procurement note. If, however, the private individual who is subject to invoicing obligation provides a statement requesting to have the tax advance deducted, the payer shall proceed according to Subsection (3).

(5) The payer liable to assess the tax advance shall make a certificate to the private individual on the tax advance deducted and paid, showing the tax advance base and the tax base supplement applied.

(6) The payer liable to assess the tax advance:

a) shall assess the advance on the income he has paid (provided) even if it cannot be deducted from the income for any reason;

b) in the case referred to in Paragraph *a)*, if:

ba) the private individual is in his employ,

bb) he (also) pays wages to the private individual,

bc) the business partnership, the civil law company, and the private individual is a member who participates in person in their operations,

(for the purposes of the regulations on tax advance payment obligations hereinafter referred to as "employer who has assessed the tax advance") shall be liable to pay the tax advance assessed on behalf of the private individual who is engaged under contract rewarded by regular pay (such as, monthly/weekly wage, salary, remuneration, consideration for personal participation, other benefits), and shall show it in the books under accounts receivable, as a debt owed by the private individual affected;

c) shall be entitled to deduct the claim referred to in Paragraph *b)* from any money he owes to the private individual, where the regular income payable to the private individual under contract of employment may not be less after the deduction than 50 per cent of the prevailing monthly minimum wage;

d) shall - instead of applying the provisions of Paragraphs *b)* and *c)* - proceed according to Subsection

(7) in respect of the private individuals mentioned therein, and if he does not have any liability toward the private individual that is payable in money - and it is unlikely that he will have such liability during the tax

year as suggested by the relevant circumstances - from which he can deduct the tax advances he has paid without any withholding.

(7) As regards the private individuals referred to in Paragraph *b*) of Subsection (6) - if the tax advance on income cannot be withheld - and where Paragraph *d*) applies, the payer shall indicate the amount of tax advance that was not withheld on the certificate of taxable income, and shall advise the private individual concerning his obligation to pay any portion of the tax advance that was not withheld. The payer shall disclose to the state tax authority any tax advance that was not withheld in accordance with the relevant provisions of the Act on the Rules of Taxation.

(8) The payer liable to assess the tax advance shall be required to pay the tax advance assessed by the 12th day of the month following the month when the income was paid (provided), unless the obligation to pay the tax advance described in Subsection (7) lies with the private individual affected, and shall declare it in accordance with the relevant provisions of the Act on the Rules of Taxation, with the exception that in the application of this provision, the tax advance charged on the income the private individual has received within the time limit open for payment may be recognized as claimed. The payer liable to withhold the tax advance, included within the scope of the Treasury according to the Act on Public Finances, shall discharge such liabilities in accordance with the relevant provisions of the Act on Public Finances and in other legislation adopted under its authorization.

(9) If the income is received not from a payer, or if received from a payer who is not liable to withhold the tax advance, and in connection with the income mentioned in Subsection (4) - including the advance on entrepreneurial income tax - the tax advance shall be assessed and paid, furthermore, in the application of Subsection (7), the tax advance shall be paid by the private individual affected (hereinafter referred to as "private individual liable to pay tax advance") by the 12th day of the month following the quarter to which it pertains, however, no tax advance shall be paid insofar as the amount payable remains below 10,000 forints in any quarter calculated on the aggregate from the beginning of the the tax year or otherwise. Small-scale agricultural producers using itemized expense accounting or 10 per cent expense ratio are not required to pay from the tax advance base on their farming revenues the portion of the tax advance base calculated from the beginning of the tax year that is applicable to the small-scale agricultural producers' tax allowance.

(10) The private individual shall declare in his tax return prepared without assistance from the tax authority, in a quarterly breakdown, the tax advance which private individuals are required in accordance with Subsection (9) to pay for the quarter themselves, as charged to the last month of the quarter.

Tax Advance Base

Section 47.

(1) The tax advance base shall be determined according to the provisions on the assessment of tax advances, subject to the exceptions set out in Subsections (2)-(3), taking also into account the provisions contained in Subsection (3).

(2) The base for tax advance:

a) provided that Paragraphs *b*)-*c*) shall not apply,

aa) if the income is received from a payer liable to assess the tax advance, shall be calculated by deducting the expenses indicated in the private individual's tax advance statement, not to exceed the amount that can be verified and recognized according to the provisions governing expense accounts, or the expenses which may be claimed without verification, failing this, and if no expenses may be deducted from specific income under this Act, the full amount of the income,

ab) if the income is received not from a payer liable to assess the tax advance, shall be calculated by deducting the expenses indicated by decision of the private individual concerned, not to exceed the amount that can be verified and recognized according to the provisions governing expense accounts, or the expenses which may be claimed without verification, in the case of private entrepreneurs and agricultural smallholders - if using the average-expense method under specific other regulations for the assessment of income - not to exceed the amount remaining after having deducted the expense average, and if no expenses may be deducted from specific income under this Act, the full amount of the income;

b) in the case of income from activities other than self-employment, shall comprise the income with any trade union membership fees deducted by the payer according to the Act on Voluntary Membership in

Workers' Organizations, or - if the payer has no part in deducting the membership fee - any trade union membership fee paid by the private individual, and verified by certificate of the trade union, deducted from the income;

c) in connection with expense accounts:

ca) where expenses are paid by a payer liable to withhold the tax advance, shall comprise the part of income remaining after having deducted the expenses indicated in the private individual's tax advance statement, or in the absence of such statement, up to the amount of the expenses which may be claimed without verification under this Act, in the absence of such statement or provision, the full amount of the income,

cb) in connection with expenses not mentioned in Subparagraph ca), it shall be calculated by deducting the expenses that can be verified and recognized according to the provisions governing expense accounts, or the expenses indicated by decision of the private individual concerned, in the case of private entrepreneurs and agricultural smallholders - if using the average-expense method under specific other regulations for the assessment of income - the amount remaining after having deducted the expense average,

(income applied for the calculation of the tax advance base) increased by the amount of tax base supplement established in respect of the income in question.

(3) Where the tax advance in connection with any expense reimbursement and/or income from self-employment activities the private individual received during the tax year was determined - according to the private individual's tax advance statement/decision - with the expenses deducted subject to itemized verification, the tax or tax advance base may not be determined by deducting the 10 per cent expense ratio from any income received during the tax year.

(4) The tax advance base on income from small-scale agricultural activities need not be determined insofar as the amount of such income, calculated on the aggregate from the beginning of the tax year, fails to reach the amount limit for submission of a negative declaration statement; however, when the said amount limit is exceeded, the tax advance base shall be determined on the basis of all income from small-scale agricultural activities received during the tax year, including all items recognized to comprise a part of the tax base.

(5) For the purposes of Subsection (2):

a) the sums to be added to the tax base shall comprise the income applied for the calculation of the tax advance base - exclusive of non-taxable emoluments - by the standard rate of social security contribution under the Act on the Eligibility for Social Security Benefits and Private Pensions and the Funding for These Services, or - in the absence of any requirement for compulsory insurance - by the rate of health care contribution to be charged on income comprising part of the consolidated tax base according to the Act on Healthcare Contributions;

b) if the private individual is required to pay social security contributions and health care contributions on the income (except if these contributions are shown under expenses or if he is reimbursed), 78 per cent of the part of the income established according to this Subsection shall be treated as income applied for the calculation of the tax advance base.

Tax Advance Statement

Section 48.

(1) The payer liable to assess the tax advance shall determine the amount of tax advance charged on income in consideration of a statement (tax advance statement) supplied by the private individual in writing, if the private individual makes available the statement before the time of payment upon notice or on his own volition. The statement may be supplied on a case-to-case basis, or for the tax year until further notice (submission of another statement). In the event of any changes in the contents of the statement, the private individual affected shall forthwith issue a new statement.

(2) In the tax advance statement the private individual shall supply information, relating to the case on hand, concerning:

a) the expenses to be deducted for determining the tax advance on the income;

b) the method for establishing the tax advance;

c) the estimated amount of the private individual's consolidated tax base, and any non-taxable emoluments due for the tax year;

d) the application of tax credit in connection with wages;

e) the claiming of any family tax allowance, and on sharing such allowance;

f) the avoidance of the distribution of State severance pay;

g) in the case of seriously disabled private individuals, the duration of the disability on the basis of a certificate verifying such condition as of the month of the initial day of such condition; where it shall suffice to make only one statement to a single payer if the handicapped condition is irreversible.

(3) Private individuals shall be able to provide statements for claiming tax credit or family tax allowance, or concerning serious disability to the payer of their regular income. If there are several persons eligible to claim a family tax allowance, the beneficiary persons shall make the statements for claiming family tax allowance jointly, subject to the obligation of notification of changes. The beneficiaries may indicate in this statement the ratio to the employer liable to assess the tax advance for dividing the family tax allowance to which they are collectively entitled for each month. The statement pertaining to family tax allowance shall contain at least the following information:

a) the name and tax identification code of all beneficiaries (or their natural identification data if no tax identification code is available);

b) the name and tax identification code of all dependants (or their natural identification data if no tax identification code is available), and in respect of fetuses (twin fetuses), a certificate of pregnancy;

c) the name (corporate name) and tax number of all employers liable to assess the tax advance for each beneficiary, and an official statement from the employers of acknowledgement of the contents of the statement, or a certificate of no employer where applicable.

(4) If the private individual requested in his statement filed in connection with establishing the tax advance on any income he has earned during the tax year:

a) the deduction of expenses subject to itemized verification, and the amount of the expenses so deducted are in excess of the verified expenses which have been claimed according to the provisions of this Act when establishing the consolidated tax base, 39 per cent of the difference;

b) the withholding of tax advance (including the case if the private individual failed to supply a statement to the employer liable to assess the tax advance concerning his non-taxable emoluments), or if having paid the tax advance resulting in a difference showing in consequence for reasons attributable to the private individual - including the case mentioned in Paragraph a) -, 12 per cent of this amount shall be indicated in the private individual's tax return filed for the tax year in question and shall be paid as a penalty. This provision shall not apply if the difference referred to in Paragraph a) is below 5 per cent of the expense amount claimed in the establishing the tax advance, if the difference referred to in Paragraph b) is below 10,000 forints.

(5) The payer liable to withhold the tax advance shall inform the private individual concerned before the time of payment concerning the option for making a tax advance statement, and on the consequences that may ensue when a statement is provided, and when one is not provided.

Tax Advance Payable

Section 49.

(1) The amount of tax advance shall be calculated from the tax advance base established according to Section 47 by the highest tax rate prescribed by the tax rate provision, except if the provisions contained in Subsections (2)-(16) shall or may be applied.

(2) If the private individual provides a statement to the payer liable to assess the tax advance before the time of payment, declaring that his consolidated tax base is not expected to reach the tax bracket prescribed by the tax rate provision, the payer shall apply the lower tax bracket to determine the amount of tax advance for the tax year insofar as the private individual withdraws his statement, and in any case not later than the time when the tax advance bases he has established for the tax year exceed the aforesaid bracket on the aggregate.

(3) By way of derogation from Subsections (1)-(2), the amount of tax advance on the tax advance bases originating from the relationship between the employer liable to assess the tax advance and the private individual shall be determined according to Subsections (4)-(9).

(4) Following receipt of the first payment of non-taxable emoluments (including pension benefits) in the tax year by another payer the private individual shall forthwith supply a statement to the employer liable to assess the tax advance as to the amount of any regular or non-regular income drawn from others at the time of payment (provision), or the amount estimated for the tax year. The employer liable to assess the tax advance shall apply the statement for determining the tax advance, not yet accounted, which he has paid as wages, for the tax year insofar as the statement is amended or withdrawn by the private individual.

(5) In connection with regular income, the tax advance on regular monthly income shall be calculated by multiplying the tax advance base determined on the basis of a monthly income by twelve (projected tax advance base), and dividing the result by twelve to arrive at the amount of tax according to the tax rate provision. Taking into account the amount indicated in the statement referred to in Subsection (4), or otherwise, if the private individual's non-taxable emoluments are also drawn from the employer liable to assess the tax advance,

a) the projected tax advance base shall be increased by the amount of non-taxable emoluments estimated for the year, and the tax amount estimate shall be calculated on this total according to the tax rate provision;

b) the amount calculated according to the tax rate provision from the amount of non-taxable emoluments by a factor of twelve shall be deducted from the tax amount estimate referred to in Paragraph *a)*; and

c) the difference referred to in Paragraph *b)* shall be divided by the twelve.

(6) Where regular income is paid (provided):

a) in more than one installment within the same month, the provisions of Subsections (4)-(5) shall be applied upon establishing the amount of monthly income, however, an amount consistent with the tax advances on any such interim monthly payment (provision) may be withheld until the end of the month;

b) for several months at the same time, it shall be handled as if the private individual has received the income on a monthly basis, where this provision shall be applied also if the employer has increased the wage retroactively for several months within the tax year.

(7) Regular income shall mean all monthly income paid (provided) to the private individual in connection with or arising out of his employment with the employer liable to assess the tax advance on the basis of legislation or contract in effect at the time of payment.

(8) In the case of non-regular income (income other than regular income) (e.g. one extra month's salary, bonuses which are not paid monthly, premiums, vacation pay compensation):

a) the total of the tax advance base determined on the previous month's regular income, multiplied by twelve, shall be increased:

aa) by the amount of non-taxable emoluments estimated based on the statement referred to in Subsection (4), or otherwise, if the private individual's non-taxable emoluments are also drawn from the employer liable to assess the tax advance,

ab) by the tax advance base established on non-regular income, and the tax amount estimate shall be calculated on this sum according to the tax rate provision, and

b) the amount of tax calculated according to the tax rate provision on twelve-times the total of the tax advance base determined on the previous month's regular income and the previous month's non-taxable emolument(s) shall be deducted from the tax amount estimate referred to in Paragraph *a)*.

(9) By way of derogation from Subsections (5)-(8), the calculation shall be carried out relating to the tax advance base of the given payment (provision) by the first tax bracket according to the tax rate provision, if:

a) the projected tax advance base is not expected to reach the first tax bracket prescribed by the tax rate provision together with the estimated amount of non-taxable emoluments and with the tax advance base in question;

b) the rules governing severance pay paid in the amount prescribed by law and on the distribution of State severance pay is to be applied on account of the private individual's failure to make a written statement prior to payment for the avoidance of the distribution process.

(10) The payer liable to withhold the tax advance (including the employer liable to assess the tax advance as well) shall establish the amount of tax advance by way of a method notified to the state tax authority, if the method in question contains facilities to reduce the tax difference in the assessment of the tax payable for the tax year. Notification is not required for a different method that the state tax authority has already authorized at the request of the author of a computer program.

(11) The payer shall establish the tax advance on taxable social security benefits paid out by the social security administration and on the remuneration of private individuals for reserve military service by dividing the amount of income with as many days to which it pertains, and multiplying the result by 365. If

the resulting sum fails to reach the first tax bracket prescribed by the tax rate provision, the payer shall establish a sum calculated by the first tax rate according to the tax rate provision on the tax advance base, and if it exceeds the said tax bracket the payer shall:

a) calculate the amount of tax on the resulting sum according to the tax rate provision, and dividing the result by 365, and

b) multiply the result under Paragraph *a)* with as many days as to which the income pertains.

(12) The tax advance on income shall be calculated according to the provisions of Subsections (4)-(10), not to exceed the amount thereof, in connection with regular income reduced on the basis of the private individual's tax advance statement by:

a) the amount of monthly tax credit, that - also in observation of the regulations on tax credit - shall be 17 per cent of tax advance base on the wages received for the month in question, not to exceed 15,100 forints for any month of eligibility, however, the monthly tax allowance may not be claimed when determining the amount of tax advance if the combined sum of tax advance bases determined on the income paid out (provided) by the payer in the tax year - including the current payment - exceeds 3,188,000 forints;

b) the amount of family tax allowance for private individuals eligible for family tax allowance;

c) the monthly amount of personal allowances for seriously disabled private individuals, on the basis of a certificate verifying such condition, as of the first day of and for the duration of the disability.

(13) By way of derogation from what is contained in Subsections (3)-(12), private individuals may opt - instead of indicating in the tax advance statement the estimated tax advance/non-taxable emoluments - to request to have the tax advance established by the highest tax rate according to the tax rate provision.

(14) The tax advance on sums, other than pension plan benefits, paid by a private pension fund to the beneficiary shall be calculated by multiplying the tax advance base by half of the lowest tax rate indicated by the tax rate provision.

(15) Private individuals liable to pay tax advance shall determine the tax advance base by adding up the income and other tax advance bases from the beginning of the tax year. The amount of tax advance on these tax advance bases shall be calculated according to the tax rate provision, less:

a) the amount of tax allowance to which the private individual eligible for family tax allowance is entitled for the given month of eligibility;

b) the monthly amount of personal allowances for seriously disabled private individuals, on the basis of a certificate verifying such condition, as of the first day of and for the duration of the disability;

c) the tax advance(s) the private individual has already established on his income received during the tax year.

(16) The tax advance base on the entrepreneurial income of private entrepreneurs using the entrepreneurial income based taxation shall be the same as the entrepreneurial tax base that is determined on the basis of all entrepreneurial income earned by the end of the quarter and calculated in observation of the relevant provisions taking into account, in particular, the expenses incurred by the end of the quarter (including entrepreneurial withdrawals), the applicable depreciation allowance and deferred losses from entrepreneurial activities. The amount of tax advance on this income shall be that part of the entrepreneurial income tax calculated on the tax advance base determined in accordance with the above, which is in excess of:

a) the tax advance(s) the private entrepreneur has already established on his entrepreneurial income for the tax year; and

b) the small business allowance to which the private entrepreneur is entitled for the quarter based on the amount of interest he has already paid for the tax year.

Private entrepreneurs, if choosing not to apply the provisions of Paragraph *b)*, shall pay an entrepreneurial income tax advance of 10 per cent on the tax advance base below 50 million forints, on condition that all other conditions for eligibility for the 10-per cent tax bracket are satisfied from the beginning of the year to the end of the quarter in question.

PART THREE

CERTAIN INCOMES WHICH ARE TAXED SEPARATELY

Chapter X

BUSINESS ENTREPRENEURIAL INCOME TAX, FLAT-RATE TAXATION AND ITEMIZED FLAT-RATE TAXATION

Taxation of Private Entrepreneurs

Section 49/A.

(1) Private entrepreneurs shall pay entrepreneurial income tax on the entrepreneurial tax base established in accordance with the provisions of Section 49/B, and a tax, based on the entrepreneurial dividend base, as prescribed in this Act (hereinafter referred to as "private entrepreneurs using the entrepreneurial income taxation system"), or may select flat-rate taxation under the conditions defined in this Act and in the Act on the Rules of Taxation.

(2) In the case of setting up a sole proprietorship, the private entrepreneur shall - upon the termination of his activities and effective on the day preceding the operative date of the court of registry's resolution for registration:

a) take inventory and shall prepare an itemized list - relying on his records - showing all receivables outstanding, tangible assets at net value, and intangible assets indicating the ones transferred to the sole proprietorship in the form of non-cash contribution, including their value that is to be fixed in the sole proprietorship's charter document;

b) assess his tax liability taking into account the provisions set out in Subsections (3)-(4) of this Section.

(3) Where a private entrepreneur terminates his activities for reasons of establishing a sole proprietorship:

a) in respect of provision for developments, employment tax credit and tax difference of record, at the private entrepreneur's discretion, in due observation of the record keeping obligations prescribed,

b) in respect of the small business allowance and tax relief for small business claimed in connection with the assets transferred to the sole proprietorship,
the private individual's private entrepreneurial status shall not be treated as terminated.

(4) Where a private entrepreneur terminates his activities for reasons of establishing a sole proprietorship, the provisions pertaining to the closing of entrepreneurial income and expense accounts shall apply subject to the exception that:

a) the assets shown in the inventory and/or in the itemized list, made available to the sole proprietorship in the form of non-cash contribution shall be recognized:

aa) as entrepreneurial income at the value shown in the charter document,

ab) as entrepreneurial expenses at the net value shown in the register of tangible and intangible assets, not yet claimed under depreciation before the time of transfer;

b) the private individual shall apply, in the tax return filed for the tax year when the termination took place, the consideration (income) received in connection with the receivables that were not transferred to the sole proprietorship following termination of the private entrepreneurial status, before the tax return is filed for the tax year when the termination took place shall be recognized as entrepreneurial income for the tax year when the termination took place.

(5) The private individual shall, in his tax return filed for the tax year:

a) declare the income referred to in Subsections (2)-(4), as well as the tax liability for the equivalent entrepreneurial income tax base and the entrepreneurial dividend base,

or he may opt

b) to assess his income disregarding the provisions of Subsections (3)-(4) and the regulations pertaining to the termination of operations, as well as the related tax liability, and

c) shall apply the portion of the tax liability referred to in Paragraph *a)* that is in excess of the tax liability referred to in Paragraph *b)* - if higher than ten thousand forints - in three equal installments,

ca) the first installment, together with the tax liability referred to in Paragraph *b)*, for the current tax year,

cb) and the remaining two installments for the next two tax years,

in the tax return filed for the tax year when the termination took place, and shall pay the tax by the deadline prescribed for filing this tax return, or the personal income tax return for the year to which the liability pertains.

(6) The provisions contained in Subsections (2)-(5) shall also apply if a private individual works in a self-employed capacity as a member of a law firm, notary's office or court bailiff's office, with the exception that the said provisions shall apply in respect of the day immediately preceding the date of joining the law firm, notary's office or court bailiff's office.

(7) The provisions on the termination of operations need not be applied in connection with a private individual in the event he loses legal competency and his business operations are continued by his legal representative in his name and on his behalf. In the event a private entrepreneur dies and his activities are continued by his widow or heir, the operations of the private entrepreneur shall be considered uninterrupted and the entrepreneurial income generated by the deceased private entrepreneur, the expenses and allowances he has claimed, and the losses deferred shall be treated as due exclusively to the widow or heir, provided that the widow or heir notifies the state tax authority within ninety days of his/her intention to carry on the operations of the deceased private entrepreneur. However, the entrepreneurial withdrawals claimed by the deceased private entrepreneur as expenses for the tax year shall be regarded as income from self-employment activities only on the part of the deceased private entrepreneur, however, it shall be taken into consideration by the widow or heir - in due observation of the provisions of this Act - when determining the entrepreneurial tax base and the entrepreneurial dividend base, and the amount of tax on these incomes.

(8) By way of derogation from what is contained in Subsection (7), if the widow or heir has already been operating as a private entrepreneur, and the deceased private entrepreneur was using a different taxation method, the former - if able to satisfy the relevant statutory conditions - shall have the option to choose within the time limit specified in Subsection (7) the taxation method under which to continue the combined operations. In this case, for the activity taxed by the method that was not selected, the private entrepreneur shall - for the day of death - establish the entrepreneurial tax base, the entrepreneurial dividend base, the entrepreneurial income tax, the tax on the entrepreneurial dividend base according to the provisions of this Act, disregarding the regulations pertaining to the termination of operations, or the income declared for flat-rate taxation and the tax on this income, and shall declare them in the tax return filed for the tax year in question and pay the tax by the deadline prescribed for filing. The combined activities shall be subject to the provisions governing the transition from the applied taxation method to the selected taxation method, and to the conditions for the application of this taxation method.

(9) The continuation of private entrepreneurial activities in accordance with Subsections (7)-(8) shall also apply to the tax liabilities of a private individual who has died or lost legal competency, if the private individual in question incurred such liability as a payer or employer.

Entrepreneurial Income Tax

Section 49/B.

(1) A private entrepreneur using the entrepreneurial income taxation system shall determine his entrepreneurial revenues in accordance with the provisions of this Chapter and of Schedules Nos. 4 and 10, and his entrepreneurial income from the entrepreneurial revenues, not to exceed such revenues and with due consideration of the provisions of Subsections (2)-(7), by deducting his entrepreneurial expenses. Entrepreneurial withdrawals and expenses incurred in connection with entrepreneurial activities may be claimed as entrepreneurial expenses pursuant to the provisions of Schedules Nos. 4 and 11.

(2) Where there is more than one type of entrepreneurial activity involved, the combined revenues from these activities shall be considered to be entrepreneurial revenues and all expenses incurred in connection with such revenues as recognized by this Act shall also be claimed jointly as well. Following the time of termination of a private entrepreneur's activities (for reasons other than establishing a sole proprietorship), up to the time of filing the tax return for the tax year when the termination took place:

a) the consideration (income) received in connection with private entrepreneurial activities shall be recognized as entrepreneurial income for the tax year when the termination took place,

b) the expenses incurred in connection with private entrepreneurial activities can be claimed as entrepreneurial expenses for the tax year when the termination took place, and shall be applied in the tax return filed for the tax year when the termination took place. As regards the incomes and expenses, other than those mentioned in the prior, received or incurred after the time of filing

the tax return for the tax year when the termination took place, the provisions pertaining to the assessment of income from self-employment activities shall apply.

(3) In respect of the accounting and recording of non-repayable subsidies granted by virtue of law or intergovernmental treaty, the provisions pertaining to private individuals engaged in self-employment activities shall be applied.

(4) For a private entrepreneur switching over to the entrepreneurial income taxation system from flat-rate taxation, in the tax year when switching over the amount established by the private entrepreneur in connection with his inventories on stock and in accordance with the provisions on the termination of entrepreneurial activities at the commencement of using flat-rate taxation shall comprise part of his entrepreneurial revenue.

(5) Entrepreneurial income shall also include - with due consideration of what is contained in Subsection (19) - the sum received by deducting the average number of employees employed by the private entrepreneur in the previous tax year from the average number of employees employed during the current year, multiplied by the annual average of the prevailing monthly minimum wage in effect on the first day of the previous tax year, times 1.2, not to exceed the amount of all employment tax credits claimed previously, times 1.2, whereas:

a) the employment tax credit claimed during the fourth tax year, or before, prior to the tax year when the reduction of the average number of employees took place, shall be deducted from the income;

b) in connection with maternity leave, leave of absence for caring for a child, incapacity to work due to illness, military service, imprisonment or death of the employee the amount calculated in accordance with the above shall not be treated as income during the year when the event occurred and in the next year, if it does not exceed the prevailing minimum wage in effect on the first day of the tax year in question;

c) if the private individual's private entrepreneurial status terminates for any reason (excluding if in consequence of losing legal capacity or of his death), the part of the sum claimed as employment tax credit, times 1.2, that - with the exceptions set out in Paragraphs a)-b) - were not claimed as income on account of the reduction of the average number of employees.

(6) The following may be deducted from the entrepreneurial revenues with the items described in Subsections (4) and (5) added, not to exceed the total amount of such items:

a) if employing workers with at least 50 per cent disability, the monthly wages paid to each such employee, not to exceed the prevailing monthly minimum wage in effect on the first day of the month; with respect to apprentice training of vocational school students on the basis of apprenticeship agreement, as described by law, 24 per cent of the prevailing minimum wage for each student and for each month and any fraction thereof, or 12 per cent of the prevailing minimum wage for a month and any fraction thereof if apprentice training is provided under a cooperation agreement concluded with the vocational school;

b) the amount of social security contributions paid on behalf of a vocational school student referred to in Paragraph a), who has successfully completed the practical exam, under further and continuous employment and/or of a previously unemployed person, or a person released from imprisonment within 6 months from the date of release, or a person released on parole for the duration of his employment, but for not more than 12 months; in respect of previously unemployed persons, private entrepreneurs may apply the provisions of this Paragraph if the employment of another employee working in the same position has not been terminated since the hiring of said previously unemployed person, or within the preceding six months, by regular dismissal, and if the previously unemployed person was not employed by such employer within six months before the date of his hiring;

c) from the costs of basic research, applied research and experimental development carried out within the private entrepreneur's own scope of activities in the tax year (not including the value of research and experimental development services provided, directly or indirectly, by a resident taxpayer or by the Hungarian branch of a foreign enterprise as specified in the Act on Corporate Tax and Dividend Tax, or by another private entrepreneur), the amount claimed under expenses in the tax year or, at the taxpayer's discretion, if these costs are recorded under investment costs applied to experimental development - as shown in the basic records and in the records of investment and renovation costs - by the amount of depreciation claimed on the intangible asset to which the said expense pertains, in either case on condition that:

ca) the service provider declares of having provided the service without the involvement of research and experimental development services provided by a resident taxpayer or by the Hungarian branch of a foreign enterprise, or by a private entrepreneur governed under the Act on Personal Income Tax;

cb) these costs were not funded from proceeds received as support or assistance;

in connection with basic research, applied research and experimental development performed jointly by a private entrepreneur and an institution of higher education, the Hungarian Academy of Sciences or a research institution (research facility) established by either of them or jointly within the private entrepreneur's scope of activities (including any equivalent organization established in any Member State of the European Union or any State that is a party to the Agreement on the European Economic Area), the private entrepreneur may claim three times the amount referred to in and calculated according to the previous provision (up to maximum fifty million forints), whose value calculated by the tax rate referred to in Subsections (9)-(10) for the purposes of the provisions governing state subsidies shall be treated as *de minimis* aid received for the tax year;

d) 30 million forints per year, not to exceed the amount specified under Subsection (12), for private entrepreneurs employing less than 250 persons (hereinafter referred to as "small business allowance"); the sum received by multiplying the small business allowance claimed by the private entrepreneur for the tax year with the tax rate referred to in Subsections (9)-(10) for the purposes of the provisions governing state subsidies, if the investment serves the purpose of primary agricultural production, it may be claimed as an aid provided according to Commission Regulation (EC) No. 1857/2006 of 15 December 2006 on the application of Articles 87 and 88 of the Treaty to State aid to small and medium-sized enterprises active in the production of agricultural products, in all other cases it shall be treated, as selected by the private entrepreneur,

da) as *de minimis* aid received for the tax year, or

db) as aid provided under the Commission Regulation on State aid to small and medium-sized enterprises;

e)

f) from the amount of entrepreneurial income(s) generated during the tax year and indicated in the tax return for information purposes, shown in the records as set aside for improvements subject to the obligation of accounting pursuant to Subsection (16), with the year of filing the tax return applied as the initial year, not to exceed 50 per cent of the part that is in excess of the operating expenses claimed for the tax year, and not to exceed 500 million forints per tax year (provision for developments);

g) on the first day of the tax year, and for private entrepreneurs employing less than five persons on the first day of operations - with due consideration of what is contained in Subsection (19) - the sum received by deducting the average number of employees employed by the private entrepreneur in the previous tax year from the average number of employees employed during the current year (or the average number of employees for private entrepreneurs starting up), multiplied by the annual average of the prevailing minimum wage in effect on the first day of the tax year (or on the first day of operations for private entrepreneurs starting up) (employment tax credit), on condition that the private entrepreneur has no outstanding tax debts owed to the state or local tax authority on the last day of the tax year; the value of the reduction claimed under this provision as calculated by the tax rate referred to in Subsections (9)-(10) for the purposes of the provisions governing state subsidies shall be treated as support received for the tax year under the threshold of trivial amount by the *de minimis* rule;

h)

(7) Private entrepreneurs may defer entrepreneurial expenses in excess of the entrepreneurial revenues with the items described in Subsection (6) deducted (hereinafter referred to as "deferred losses"). Deferred losses, with due consideration of the provisions of Subsection (1), may be claimed in accordance with the following:

a) Private entrepreneurs may write-off deferred losses from their entrepreneurial income (including any income established by way of self-revision or audit) earned during any subsequent tax years (ending in the year when the activities are terminated), as divided at the discretion of the private entrepreneur. The widow or heir of a private entrepreneur may claim the losses deferred from his activities in accordance with the provisions on private entrepreneurs, if they carry on the activities of the deceased private individual, provided that the widow or heir notifies the tax authority within three months of his/her intention to carry on the operations.

b)

c) Losses may be deferred for the current tax year without taking into account the deferred losses brought forward from previous year(s). Deferred losses shall be claimed in chronological order.

d) The provisions of this Section shall apply to losses that were deferred in due observation of the principle of proper execution of the law within its meaning and intent.

da) the private entrepreneur's entrepreneurial income for the tax year remains below fifty per cent of the expenses claimed, or

db) the private entrepreneur has claimed deferred losses in connection with his entrepreneurial activities during the previous two tax years as well.

An application for the authorization for the deferral of losses shall be submitted by the deadline prescribed for filing the tax return for the tax year, application for the authorization for the deferral of additional losses discovered by self-revision and for the deferral of losses for the entire tax year that has already been authorized in connection with the self-revision shall be submitted by the deadline prescribed for the submission of the self-revision forms, furthermore, the application for the authorization for the deferral of losses for the entire tax year that has already been authorized in connection with the audit within fifteen days from the operative date of the decision, or - in the case that a request is lodged for supervisory intervention or for the judicial review of a resolution of the tax authority - within fifteen days from the binding conclusion of the proceeding. No application for extension shall be accepted upon missing the deadline. The tax authority shall grant authorization if there is evidence that losses deferred have occurred due to unavoidable external reasons, or if the private entrepreneur has taken all measures within reason to avoid or mitigate the losses. If the tax authority does not reject the application for authorization within the prescribed time limit, it shall be subject to the legal consequences applicable as if it had been approved.

e) Paragraph a) notwithstanding, private entrepreneurs engaged in agricultural activities may settle any deferred losses retroactively during the tax year for the preceding two tax years by self-revision of the tax return, by deducting an amount determined at the private individual's discretion from the income (including any income established by way of self-revision) of one of the previous two years or of both years produced by agricultural activities, however, the said amount may not exceed the amount of deferred losses for both years. If the above option is not applied, or if only a portion of the losses are settled against the previous two years, for the remaining portion the provisions of Paragraphs a)-d) may be applied.

f) Private entrepreneurs, with entrepreneurial revenues from activities in addition to agricultural activities, may apply the provisions contained in Paragraph e) solely for the portion of income established for agricultural activities from all private entrepreneurial activities. The percentage of agricultural activities shall be determined by dividing the entrepreneurial revenues from such activities by the revenues from all entrepreneurial activities.

g) For the purposes of this Subsection, the activities listed in Schedule No. 6 shall be regarded as agricultural activities, along with other plant cultivation activities, if the private individual in question performs such activities in the capacity of a private entrepreneur.

h) The deferred losses from before 31 December 2003, not yet claimed against entrepreneurial income may be claimed in accordance with the regulations in effect at the time when they were incurred.

i) The provisions of Paragraphs e)-h) shall be applied during an audit if the private entrepreneur has so requested.

(8) The entrepreneurial tax base:

a) shall comprise the income determined according to Subsections (1)-(7), with the exception that:

b) if the amount of income calculated according to Subsections (1)-(5) does not exceed the expenses claimed according to Schedules Nos. 4 and 11, or the part that is in excess fails in the tax year the income (profit) minimum, such taxpayer shall either:

ba) make a statement specified in Subsection (1) of Section 91/A of the Act on the Rules of Taxation in his tax return, or

bb) apply - in accordance with the provisions of Subsection (23) the income (profit) minimum as the tax base.

The private entrepreneur who has a branch (permanent establishment) in a foreign country shall adjust the entrepreneurial tax base referred to in Paragraph a) and Subparagraph bb) - in due observation of what is contained in Subsection (15) - so that it does not contain the entrepreneurial tax base of the foreign branch, if it is so prescribed by international agreement.

(9) The rate of the entrepreneurial income tax shall be 19 per cent of the entrepreneurial tax base established in accordance with the provisions of Subsection (8), or of the adjusted entrepreneurial tax base if so prescribed under international agreement. This tax may be reduced, not to exceed the tax amount:

a) by 90 per cent of the tax paid, in the absence of an international agreement or reciprocity, as properly verified in another country during the tax year on the entrepreneurial tax base of a foreign branch, or by the tax calculated on this tax base by the average entrepreneurial income tax, whichever is lower; the average entrepreneurial income tax shall be established - without the application of this provision - by dividing the

amount of entrepreneurial income tax determined in accordance with Paragraph *b*) by the entrepreneurial tax base rounded off to two decimal places; any tax refund that is due to the private individual by virtue of an act, international agreement, reciprocity, or foreign law from the income tax paid may not be claimed under taxes paid abroad;

b) furthermore, subject to the restriction that the reduction may not exceed seventy per cent of the entrepreneurial income tax established without the application of Paragraph *a*), under the terms and conditions defined in Schedule No. 13, the tax allowances specified under the transitional provisions, with the exception that from the tax allowances granted in connection with the same project - including small business allowances - only one, as selected by the private entrepreneur, may be claimed; the small business allowance and the tax allowance granted to small businesses under Schedule No. 13 can be applied for the same project in tandem.

(10) By way of derogation from the provisions of Subsection (9), the rate of the entrepreneurial income tax shall be 10 per cent of the entrepreneurial tax base below 50 million forints established in accordance with the provisions of Subsection (8), or of the adjusted entrepreneurial tax base if so prescribed under international agreement, on condition that the private entrepreneur opted to apply the provisions of this Subsection and:

a) the private entrepreneur shall not apply the provisions contained in Paragraph *b*) of Subsection (9); and

b) the private entrepreneur's average number of employees registered in the tax year is at least one; and

c) the private entrepreneur's entrepreneurial tax base assessed according to Subsection (8) reaches in the tax year and in the year before that (in the current tax year if commencing the activities in this year) the income (profit) minimum [except if falling under the scope of Subsection (20)]; and

d) had not been found in dissent with the requirement of distinguished labor relations as set out in the Act on Public Finances during the current and the previous tax year by a final and executable administrative resolution adopted by the employment authority, the tax authority or the authority vested with powers to monitor and enforce compliance with the principle of equal treatment, and - in the case of judicial review of the said resolution - had not been sanctioned by final court verdict by an employment penalty, a penalty under the Act on Equal Treatment and the Promotion of Equal Opportunity or a default penalty under the Act on the Rules of Taxation.

and

e) during the tax year the private entrepreneur has declared pension and health insurance contributions:

ea) in the amount equal to at least double of the contribution base being the sum received by multiplying the average number of employees employed during the current year by the annualized average of the prevailing monthly minimum wage,

or

eb) being the sum received by multiplying the average number of employees employed during the current year by the annualized average of the prevailing monthly minimum wage, if the private entrepreneur is established in any one of the regions and communities deemed most underprivileged pursuant to the relevant regulation.

The amount of tax calculated according to Paragraph *a*) of Subsection (9) shall be deducted from the tax assessed in accordance with this provision. For determining the average number of employees employed during the tax year and the annualized average of the prevailing minimum wage the provisions set out in Subsection (19) shall apply with the exception set out in Subparagraph *aa*), where the private entrepreneurs not engaged in auxiliary activities are also treated as employees (as applicable) for the purposes of this Subsection. The difference of the entrepreneurial income tax established according to the provisions of Subsection (10) and calculated without this provision shall be treated, for the purposes of the provisions governing state subsidies, as:

1. de minimis aid received during the tax year,
2. or, at the private entrepreneur's discretion, as aid provided under Article 13 or 15 of Commission Regulation (EC) No. 800/2008 of 6 August 2008 declaring certain categories of aid compatible with the common market in the application of Articles 87 and 88 of the Treaty (General block exemption Regulation) (OJ 06. 08. 2008), if the private entrepreneur uses the amount tied up in accordance with Subsection (21) exclusively for investment or development projects, or to repay a loan borrowed for such purposes,
3. aid provided under Article 4 of Commission Regulation (EC) No. 1857/2006 of 15 December 2006 on the application of Articles 87 and 88 of the Treaty to State aid to small and medium-sized enterprises

active in the production of agricultural products, if the private entrepreneur - if engaged in primary agricultural production as well - uses the amount recorded in accordance with Subsection (21) exclusively for investment or development projects, or to repay a loan borrowed for such purposes.

In the case of application of the provisions of this Subsection, the amount of the de minimis aid received during the tax year, which is to be deducted from the entrepreneurial income shall be calculated for the tax year by the 10 per cent tax bracket in connection with all allowances claimed for the tax year below 50 million forints, or by the 19 per cent tax bracket for the part in excess of 50 million forints.

(11) If either of the cases defined under Subsection (14) occurs (except for the case of return within the warranty period due to lack of conformity in terms of performance) by the last day of the fourth tax year following the year for which the small business allowance was claimed, the amount of tax payable shall be calculated by multiplying the tax rate specified in Subsection (9) in effect for the year when the small business allowance was claimed by two.

(12) The small business allowance may not be more than the part of entrepreneurial income that is in excess of entrepreneurial expenses. The small business allowance may not be more than the combined value of investment expenses on tangible assets that directly serve the entrepreneur's operations, not commissioned or validated before and used exclusively for business purposes (including purchase costs and production costs claimed during the tax year under expenses), and the renovation costs of land and buildings that directly serve the entrepreneur's operations in the amount claimed for the tax year and which are added to the value on which the depreciation allowance is based. For the purposes of this provision, land and buildings, as well as the vehicles, plant and machinery specified in the list of depreciation rates and the rules for applying them may be regarded as tangible assets, while intellectual properties may be regarded as intangible assets. Within the meaning of this provision, tangible assets and intellectual products received in exchange within the warranty period - if the private entrepreneur claimed any small business allowance with respect to the tangible asset or intellectual product received in exchange - and non-operational properties and plantations may not be considered a capital expenditure.

(13) For the purposes of the small business allowances, as referred to under Subsection (12),

a) the land and buildings that are not directly related to the entrepreneurial activity of the taxpayer shall be construed as non-operational, such as any residence within the business premises and the buildings and engineering structures used in principle for the purposes of betterment;

b) a passenger car that has never been used previously shall also qualify as a tangible asset directly serving the entrepreneur's operations exclusively for business purposes,

1) provided that the private individual shall be required to pay company car tax on the vehicle in question for four tax years following the use of the small business allowance, or until any or either of the cases defined in Paragraphs a), d) and e) of Subsection (14) occurs,

2) if it is used in connection with the regular operations of a private entrepreneur engaged in car rental or passenger transportation services, and it is not used for other purposes to any extent whatsoever, and such use is clearly supported by his business records.

(14) The provisions of Subsection (11) shall be applied to the part(s) that were taken into account for the purposes of the small business allowance from the acquisition costs of tangible assets and intellectual property (including any expenses that may be included in the depreciation base, and purchase costs and production costs that were claimed under expenses in the year when claiming the small business allowance) as per the following:

a) if the asset has not been put into operation or placed into service (unless this is due to damage owing to unavoidable external reasons), the portion of the small business allowance pertaining to that asset shall be applied to the tax liability for the fourth tax year following the year in which the allowance was claimed,

b) if the asset does not meet the conditions laid down in Subsection (12) at the time it is put into operation or placed into service, the portion of the small business allowance pertaining to that asset shall be applied to the tax liability for the year in which it is commissioned or placed into service,

c) if a private entrepreneur uses an asset that has already been put into operation or placed into service as an asset not mentioned under Subsection (12) (transferred asset), the portion of the small business allowance pertaining to that tangible asset shall be applied to the tax liability for the year in which it is transferred, unless it was transferred due to damage owing to unavoidable external reasons,

d) if a private entrepreneur alienates an asset - either before or after it is put into operation or placed into service - (including conveyance as an in-kind contribution or without a consideration, or if returned if it is an asset that was received under a financial leasing agreement subject to installment or deferred payment

arrangements), the portion of the small business allowance pertaining to that asset shall be applied to the tax liability for the year in which it is alienated,

e) if the private individual's private entrepreneurial status terminates for any reason (excluding if in consequence of losing legal capacity or of his death), the full or - taking into account the provisions of Paragraphs a)-d) - remaining portion of the small business allowance shall be applied to the tax liability for the day of termination.

As regards the passenger car referred to in Point 1 of Paragraph b) of Subsection (13), the provisions set forth in Paragraphs b) and c) need not be applied.

(15) If any part of the entrepreneurial income is generated by a foreign branch, the entrepreneurial tax base for that foreign branch shall be calculated from this income, in the absence of an international agreement or reciprocity:

a) by deducting any and all costs incurred, regardless of the place, in connection with the branch's gainful activity and/or taking into account the increments and deductions mentioned in Subsections (2)-(7);

b) by deducting any and all costs incurred, regardless of the place, in connection with the gainful activity of this branch and other branch or branches (including entrepreneurial withdrawals), and/or by deducting or taking into account the portion of the increments and deductions mentioned in Subsections (2)-(7) incurred, regardless of the place, as commensurate for the income of the foreign branch.

(16) Funds earmarked as provision for developments and renovation(s) may be released inasmuch and at the time, if the private entrepreneur has effected any payments covering investment and renovation costs in the year when they were recorded and during the following three tax years for the acquisition (other than gratuitous) or production of tangible assets used exclusively for business purposes, as shown in the basic records and in the records of investment and renovation costs [exclusive of the investment and renovation costs for which Subsection (22) is applied], with the exception if the private entrepreneur:

a) determines the entrepreneurial income tax on the released amount according to the provisions contained in Subsection (9) effective for the tax year when the funds were first shown in the books as tied up; and

b) pays the 25 per cent tax on the entrepreneurial dividend base for the portion of the released funds that is in excess of the entrepreneurial income tax referred to in Paragraph a); as well as

the taxes mentioned in Paragraphs a)-b) - with late charges added - within thirty days following the day when released in accordance with the provisions governing self-revision. Private entrepreneurs shall assess the taxes described under Paragraphs a)-b) on any funds that remained tied-up as provisions for developments by the last day of the third tax year that follows the tax year when the funds were shown in the books as tied up, and shall pay them with late charges added. Late charges shall be calculated as of the first day immediately following the due date for filing the tax return in which the provision for developments is indicated for information purposes until the day when the funds were released for purposes other than development, or until the first day of the fourth tax year following the tax year when the funds were first shown in the books as tied up, and shall be declared in the first tax return submitted following the said date. The previous provisions shall apply also when the private individual's private entrepreneurial status terminates during the same period for any reason (excluding if in consequence of losing legal capacity or of his death), in which case the taxes mentioned shall be due and payable within thirty days from the date when his private entrepreneurial status has terminated. Private entrepreneurs shall keep records on all accounts earmarked for provisions for developments with facilities to show the amounts released, the dates and the amount(s) of payment(s) on account for investments for which the funds are released, and the amounts of taxes levied in connection with the release of funds, with late charges added.

(17) For the purposes of the small business allowance and the tax allowances for small and medium-size enterprises, the number of employees shall be determined on the basis of the total of the calendar days between the first and last day of employment of each worker and divided by 365 (fractions shall be rounded downward).

(18) The after-tax income of the private entrepreneur shall equal the combined total of the entrepreneurial tax base established according to Subsections (1)-(7) as mentioned in Paragraph a) of Subsection (8) - exclusive of any part from a foreign branch - and the small business allowance, less:

a) the tax amount calculated according to Subsections (9)-(11);

b) the tax paid, in the absence of an international agreement or reciprocity, as properly verified in another country during the tax year on the entrepreneurial tax base of a foreign branch; any tax refund that is due to the private individual by virtue of an act, international agreement, reciprocity, or foreign law from the income tax paid may not be claimed under the title of tax paid abroad.

(19) For the purposes of Subsections (5)-(6) of this Section:

a) the average number of employees for a tax year shall be calculated dividing the number of calendar days the employees spent in employment during the tax year by the number of days contained in the tax year (or the number of calendar days of the activities conducted in the tax year for private entrepreneurs commencing or terminating their activities), rounded off to two decimal places; whereas the following shall be disregarded for the purposes of the above-specified calculation:

aa) any employee who was working - prior to entering into employment with the private entrepreneur - for a person considered affiliated to the private entrepreneur by definition of the Act on Corporate Tax and Dividend Tax, whether under contract of employment or otherwise, including any relation requiring personal participation;

ab) the number of calendar days of maternity leave, leave of absence for caring for a child, incapacity to work due to illness in excess of thirty days, imprisonment;

b) 'annual average of the prevailing monthly minimum wage' shall mean:

ba) the prevailing monthly minimum wage times twelve;

bb) for private entrepreneurs starting up or terminating their activities, the amount referred to in Subparagraph ba) divided by 365 and multiplied by the number of calendar days of operations during the tax year.

(20) Paragraph *b*) of Subsection (8) shall not apply in connection with determining the entrepreneurial tax base:

a) during the year of commencing (restarting) operations and in the following year, if the private individual did not engage in private entrepreneurial activities during the 36-month period prior to the commencement of activities (including if the private entrepreneur did not have any income during that period);

b) if the private entrepreneur has sustained any loss due to natural disaster during the current or the previous tax year.

(21) Private entrepreneurs are required to indicate the amount of the difference of the entrepreneurial income tax established according to the provisions of Subsection (10) and calculated without this provision (for the purposes of this Act hereinafter referred to as "tax difference of record") in their tax return for information purposes, and shall show them in the books subject to the obligation of accounting pursuant to Subsection (22), with the year of filing the tax return applied as the initial year.

(22) The tax difference of record may be released inasmuch and at the time, if the private entrepreneur:

a) in the case defined in Point 1 of Subsection (10), in the year when they were recorded and during the following three tax years:

aa) has effected any payments covering investment and renovation costs, for the acquisition (other than gratuitous) or production of tangible assets used exclusively for business purposes, as shown in the basic records and in the records of investment and renovation costs [exclusive of the investment and renovation costs for which Subsection (16) is applied], and/or

ab) has effected any payments covering the costs claimed during the tax year under expenses if incurred in connection with the employment of workers with at least 50 per cent disability under Paragraph *a*) of Subsection (6) and/or previously unemployed person and/or first-time employees mentioned in Paragraph *b*) of Subsection (6), on condition that the above-specified employment relationship commenced after 31 December 2007, and/or

ac) has effected any payment for the repayment of any part of a loan (including financial leasing arrangements) received from a financial institution under a loan contract;

b) in the cases defined in Points 2 and 3 of Subsection (10), in the year when they were recorded and during the following three tax years:

ba) has effected any payments covering investment and renovation costs, for the acquisition (other than gratuitous) or production of tangible assets used exclusively for business purposes, as shown in the basic records and in the records of investment and renovation costs [exclusive of the investment and renovation costs for which Subsection (16) is applied], and/or

bb) has effected any payment for the repayment of any part of a loan (including financial leasing arrangements) received from a financial institution under a loan contract for covering the investment and renovation costs mentioned in Subparagraph *ba*),

except if the private entrepreneur pays the tax in the same amount as the released amount, including if the released amount is not in compliance with the provisions contained in Points 1-3 of Subsection (10), within thirty days following the date of release. Private entrepreneurs shall - up to the last day of the first

month of the fourth tax year - assess and pay the tax in the amount of any funds that remained tied-up by the end of the third tax year that follows the tax year when the funds were shown in the books as tied up, and shall declare it in the first tax return subsequent to the aforesaid date. If the private individual's private entrepreneurial status terminates during the same period for any reason (excluding if in consequence of losing legal capacity or of his death), the tax in the amount of any funds that remained tied-up shall be due and payable within thirty days from the date when his private entrepreneurial status has terminated. The tax payable in the above-specified cases shall be paid with late charges added in accordance with the provisions of Subsection (16) pertaining to late charges. Private entrepreneurs shall keep records with facilities to show the amounts released, the dates and the amount(s) of payment(s) on account for investments for which the funds are released, and the amounts of taxes levied in connection with the release of funds, with late charges added.

(23) For the purposes of Subsection (8), income (profit) minimum means two per cent of the total income not including the value of goods acquired for the purpose of resale and the value of mediated services.

(24) The loss resulting from natural disaster as referred to in Paragraph *b*) of Subsection (20) (the aggregate amount of loss in connection with several disasters, where applicable) shall be deemed to constitute at least fifteen per cent of the private entrepreneur's income from the previous tax year (or the average daily income from operations calculated for a period of 365 days if the private entrepreneur commences or terminates activities in the course of the tax year). It shall be determined based on a document made out by an independent organization, or failing this, on a report or reports made out by the private entrepreneur describing the damage that shall be sent to the competent state tax authority within fifteen days following the time when the damage has occurred. No petition for excuse may be lodged upon failure to meet this deadline.

(25) Where a private entrepreneur meets the obligation imposed on him by a binding administrative decision or by a final court ruling adopted upon the judicial review of an administrative decision within the prescribed time limit or by the prescribed deadline, it shall have no bearing on his non-compliance under Paragraph *d*) of Subsection (10) of the requirement of distinguished labor relations as set out in the Act on Public Finances.

Entrepreneurial Dividend Base

Section 49/C.

(1) The entrepreneurial dividend base shall be established from the taxed entrepreneurial income as prescribed in Subsections (2)-(6), in observation of the transitional provisions as well.

(2) The following shall be added to taxed entrepreneurial income:

a) in respect of the transfer of a tangible asset without consideration, unless provided by the private entrepreneur as a payment in kind, from the year when deductions from the taxed entrepreneurial income were implemented in connection with the acquisition of said tangible asset,

aa) if the tangible asset is transferred within one year, 100 per cent,

ab) if the tangible asset is transferred after one year but within two years, 66 per cent,

ac) if the tangible asset is transferred after two years but within three years, 33 per cent,

ad) if the tangible asset is transferred after three years, zero per cent

of the amount described in Paragraph a) of Subsection (6);

b) the amount described in Subparagraphs aa)-ad) at the time of termination of private entrepreneurial activities, if terminated within the period described therein;

c) in the year in which depreciation write-off of tangible assets and intangible assets commences, that portion of the expenses representing investment costs by which the private entrepreneur reduced his entrepreneurial dividend base in the years prior to this year;

d) in the cases not referred to in Paragraph c), that portion of the expenses comprising investment costs in the fourth year following the year in which the entrepreneurial dividend base is reduced by the expenses comprising investment costs for the first time (in respect of plantations, upon sale, but for the year during which it begins to produce at the latest), by which the private entrepreneur reduced the entrepreneurial dividend base in the years prior to this year, or prior to this, upon termination of the private entrepreneurial activity.

(3)-(5)

(6) The following may be deducted from, and only up to, the combined amount of taxed entrepreneurial income and the items described in Subsection (2):

a) the sum in excess of the depreciation allowance written off from the value of tangible assets or intangible assets during the tax year, if the private entrepreneur began writing off depreciation in the tax year;

b) the amounts of fines, penalties, etc. in connection with any tax evasion or other illegal conduct which were imposed as a consequence of misconduct revealed by an inspection of business or financial affairs of the private entrepreneurial activities;

c)

d) the amount of expenses comprising investment costs, as substantiated by the relevant records, provided that depreciation write-off on the relevant tangible or intangible asset has not yet commenced.

(7) The tax on the income received from the entrepreneurial dividend base - except for the withdrawal supplement - shall be 25 per cent. Private individuals shall assess and declare this tax in their tax returns and shall pay it by the deadline prescribed for filing their tax returns.

(8) The provisions of Paragraphs a) and d) of Subsection (6) shall apply to the tangible assets (including passenger cars on which the private individual has claimed a small-business allowance) and intangible assets that are used exclusively for business purposes.

Flat-Rate Taxation of Private Entrepreneurs and Agricultural Smallholders

Section 50.

(1) Instead of taxation on the basis of entrepreneurial income, the private entrepreneur may, in consideration of the provisions of Subsections (4)-(7), choose flat-rate taxation for the entire tax year according to the provisions of the Act on the Rules of Taxation, if

a) his entrepreneurial revenues did not exceed 15 million forints in the tax year preceding the year when switching to over flat-rate taxation, and

b) he is not employed, and

c) the private entrepreneur's revenue does not exceed 15 million forints during the tax year.

(2) Agricultural smallholders may use flat-rate taxation for the entire tax year instead of applying the provisions of Part Two.

(3) Flat-rate taxation may only be used if applied to all private entrepreneurial activities and all agricultural smallholders' activities.

(4) By way of derogation from what is contained in Subsection (1), the private entrepreneur who is engaged solely in retail activities - as described in the Government Decree on Retail Establishments and on the Conditions for Conducting Business Away from a Commercial Establishment - as his only registered activity as a private entrepreneur during the entire tax year may choose flat-rate taxation if his business revenue for the tax year preceding flat-rate taxation did not exceed 100 million forints and if he is not employed.

(5) Any private individual who is entitled to use flat-rate taxation both as a private entrepreneur and an agricultural smallholder may employ flat-rate taxation either separately or jointly for the two activities.

(6) The private entrepreneur and agricultural smallholder who commences activities in the course of a tax year may, in accordance with the provisions set forth in Subsections (1)-(5), employ flat-rate taxation as of the commencement of his activities.

(7) The private entrepreneur who terminates the use of flat-rate taxation or loses eligibility for such mode of taxation may only revert to the use of flat-rate taxation four tax years after the year of cessation (termination), provided that all other applicable requirements are satisfied. Where eligibility was terminated due to having exceeded the income threshold limit, the private entrepreneur may revert - by way of derogation from the above provision - to the use of flat-rate taxation as of the tax year when the income threshold limit prescribed in this Act was increased, provided that all other applicable requirements are satisfied.

(8) The private entrepreneur commencing or terminating operations during the course of the year may apply the income threshold limits defined under Subsection (1) above in proportion to the days of operation.

Section 51.

(1) A private entrepreneur using flat-rate taxation shall account for his revenues in accordance with Schedule No. 10, with due consideration of the provisions of Schedule No. 4. If a private individual using the flat-rate taxation method is granted any non-repayable aid by virtue of legal regulation or international agreement for covering operating (business) expenses or for improvements, it shall not be treated as entrepreneurial income. Such private individuals shall satisfy their tax liabilities in connection with such income according to the provisions on income from self-employment activities.

(2) If a private entrepreneur using flat-rate taxation has terminated his activities:

a) the provisions on the termination of private entrepreneurial activities shall be duly applied and the private entrepreneur's standardized income shall be increased by the amount established by the private entrepreneur in connection with his inventories on stock and in accordance with the provisions on the termination of entrepreneurial activities at the commencement of using flat-rate taxation;

b) in respect of any revenues received and expenses incurred following termination, the provisions on income from self-employment activities shall be applied, including the provision that expenses incurred during the tax year may only be claimed up to the amount of revenues produced during the tax year.

(3) Private entrepreneurs using flat-rate taxation, if not claiming any value added tax deductions, shall record all revenues in the cash journal (general ledger) and shall retain all receipts and other documents on expenses incurred in connection with entrepreneurial activities in accordance with the general provisions prescribed in this Act. Using the flat-rate taxation method shall not relieve private entrepreneurs from the obligations, as prescribed to payers or as required by other legal regulations, pertaining to keeping records, issuing certificates, data disclosure, and to invoicing and issuing receipts.

(4) If switching over to flat-rate taxation, the private entrepreneur shall establish his revenues related to existing inventories, as at the 31st of December of the year preceding the year of transition, according to the provisions on the termination of private entrepreneurial activities, which henceforth shall be registered as revenues not to be included in the tax base until application of flat-rate taxation.

(5) An agricultural smallholder using flat-rate taxation shall proceed in accordance with the provisions of Subsections (1)-(3), however, his revenues shall be accounted in accordance with Schedule No. 2.

Section 52.

(1) The rules of flat-rate taxation may be applied, if, during the tax year,

a) the entrepreneurial revenues of the private entrepreneur remain below 15 million forints or, for private entrepreneurs described in Subsection (4) of Section 50, 100 million forints and the private entrepreneur does not enter into an employment,

b)

(2) Failure to satisfy any of the conditions described in Paragraph a) of Subsection (1) shall result in the termination of eligibility for flat-rate taxation, in which case the private entrepreneur in question, and any private entrepreneur using the flat-rate taxation method if restarting operations during the tax year after having terminated it shall be required to switch over to the entrepreneurial income taxation system for the entire tax year. The above transition shall also include the maintenance of a full cash journal and the otherwise necessary detailed records, with the exception that it is sufficient to indicate the expense entries pertaining to the period preceding the date of termination of eligibility in the cash journal, in the detail described therein, but in one sum per item.

(3) If eligibility for flat-rate taxation for an agricultural smallholder is terminated, he shall proceed in accordance with the provisions of Part Two with the exception that it is sufficient to indicate the expense entries pertaining to the period preceding the date of termination of eligibility in his records in a single lump sum.

Section 53.

(1) The amount of income (standardized income) shall be established by deducting the following expense ratios from revenues:

- a) 40 per cent for private entrepreneurs,
- b) 80 per cent for private entrepreneurs engaged exclusively in the activities described in Subsection (3) or exclusively in the activities described in Subsections (3) and (4) during the entire tax year,
- c) 87 per cent for private entrepreneurs engaged exclusively in the retail activities described in the Government Decree on Retail Establishments and on the Conditions for Conducting Business Away from a Commercial Establishment during the entire tax year,
- d) 93 per cent for the private entrepreneurs referred to in Paragraph c), provided they are engaged exclusively in the operation of business establishments described in Subsection (4), separately or combined, during the entire tax year,
- e) 85 per cent for agricultural smallholders or 94 per cent from the portion of the revenues that come from animal husbandry and the production of animal products.

(2) The percentage specified in Subsection (1) shall be replaced by

- a) 25 per cent in terms of Paragraph a),
- b) 75 per cent in terms of Paragraph b),
- c) 83 per cent in terms of Paragraph c),
- d) 91 per cent in terms of Paragraph d),

if a private entrepreneur is qualified as engaged in auxiliary activities pursuant to the Act on the Eligibility for Social Security Benefits and Private Pensions and the Funding for These Services.

(3) The activities referred to in Paragraph b) of Subsection (1) are as follows:

- a) manufacture of industrial and agricultural products, construction;
- b) agricultural and animal husbandry service activities, game control activities, and forestry service activities (SZJ 01.4, 01.5, 02.02),

excluding:

- all services performed on a fee or contract basis;

c) service activities incidental to fishing (SZJ 05.01.1), service activities incidental to the operations of fish hatcheries and fish farms (SZJ 05.02.1),

excluding:

- fishing on a fee or contract basis (SZJ 05.01.10.1),
- fish farming on a fee or contract basis (SZJ 05.02.10.1);

d) manufacturing services (SZJ 15-37),

excluding:

- all services performed on a fee or contract basis, production of manufactured products,
- publishing (SZJ 22.1),
- other reproduction (SZJ 22.3);

e) construction services (SZJ 45);

f) maintenance and repair of motor vehicles (SZJ 50.20), repair of personal and household goods (SZJ 52.7), repair and restoration of furniture (under SZJ 36.1), repair and maintenance services of musical instruments (SZJ 36.30.92), repair of electric water heaters and tanks (under SZJ 45.33.11), repair of professional sports goods (under SZJ 36.40.92);

g) taxi services (SZJ 60.22.11), freight transport by road (SZJ 60.24);

h) maintenance and repair of office machinery and computers (SZJ 72.50);

i) photographic activities (SZJ 74.81);

j) washing and dry cleaning (SZJ 93.01.1), hairdressing and other beauty treatment (SZJ 93.02), grooming of pet animals (SZJ 93.05.11);

k) hospitality services and retail activities pursued on the basis of the Government Decree on Retail Establishments and on the Conditions for Conducting Business Away from a Commercial Establishment.

(4) The business establishments referred to in Paragraph d) of Subsection (1) are as follows:

	code number of business profile
a) retail sale in non-specialized stores with food predominating	1111-1112
b) grocery store	1210
c) butcher shop	1220
d) fish shop	1230

e) bakery	1240
f) well-being goods and dietary supplements	1290
g) paint and lacquer, hardware, do-it-yourself and building materials store	1363
h) other retail sale in non-specialized stores	1750

(5) If the activity of a private entrepreneur is changed during the year so as to lose eligibility for applying the previously employed expense ratio, such private entrepreneur shall be required to switch over at the time of change to the application of a lower expense ratio corresponding to his activities retroactively from the first day of the year. In the tax year during which the private entrepreneur is qualified as engaged in auxiliary activities in respect of any fraction of such year, Subsection (1) shall apply to all income received during the tax year.

Section 53/A.

Section 54.

(1) All expenses incurred in the year when using flat-rate taxation shall be considered as claimed, including, in accordance with Chapter II of Schedule No. 11, the depreciation write-off of the purchase or production value of tangible assets obtained earlier and during the period of flat-rate taxation, as commensurate for the period of flat-rate taxation. Twenty (20) per cent of the total deferred losses remaining from the period before flat-rate taxation is used shall be considered as claimed in each year of the period of flat-rate taxation.

(2) The provisions contained in Subsection (1) shall not apply to the expenses and development costs covered from any non-repayable aid that has been granted by virtue of law or under or international agreement.

(3) As regards any small business allowance, provision for developments of record, employment tax credit, tax difference of record, and tax relief for small business claimed before entering the flat-rate taxation scheme the provisions contained in Section 49/B and in Schedule No. 13 shall continue to apply during the period of flat-rate taxation.

Section 55.

Eligibility for flat-rate taxation shall be terminated in the event that the private individual in question fails to satisfy his obligation pertaining to issuing invoices (receipts).

Section 56.

(1) Private entrepreneurs using flat-rate taxation and small-scale agricultural producers shall retain the invoices and other documents in proof of the expenses incurred exclusively for the purpose of generating revenues until the term of limitation of the right for subsequent tax assessment.

(2) If a private entrepreneur or an agricultural smallholder using flat-rate taxation did not apply the provisions pertaining to the calculation of the income and/or the flat-rate tax determined in accordance with Section 53 as prescribed in Sections 50-55, and/or did not take his actual revenues into account but is otherwise eligible to use flat-rate taxation, the tax payable shall be determined in accordance with the provisions of the aforementioned Sections. In the absence of eligibility for flat-rate taxation or due to losing such eligibility, the tax payable shall be determined in accordance with the regulations on entrepreneurial income based taxation or with the provisions of Part Two.

Suspension of Activities of Private Entrepreneurs

Section 57.

(1) Private entrepreneurs shall satisfy their tax liabilities in accordance with the provisions set out in Subsections (2)-(4) of this Section if they suspend their activities according to the act governing their legal status.

(2) The private individual - upon notifying the suspension of his entrepreneurial activities - shall not be required to file a tax return regarding his entrepreneurial activities, if the suspension applies to each day of the tax year (meaning also his absence to pursue entrepreneurial activities relating to any commitment undertaken prior to notification of the suspension of his entrepreneurial activities), however, irrespective of this provision, he shall be required to declare his tax liability arising during the tax year in connection with any:

- a) small business allowance,
- b) sum shown under provisions for developments,
- c) employment tax credit,
- d) tax difference of record,
- e) tax relief for small business.

(3) The private entrepreneur, if his activities are suspended on the last day of the tax year, shall not be allowed to deduct in his tax return any small business allowance, provision for developments or employment tax credit from his income, may not indicate any tax difference of record, and may not claim any tax relief for small business.

(4) The private entrepreneur:

a) may not claim any expenses (including depreciation) during the period of suspension, with the exception set out in Subsection (5);

b) shall also notify the credit institution(s) carrying his current accounts relating to his private entrepreneurial activities concerning the suspension, at the time of submission of the notification prescribed by the act governing the legal status of private entrepreneurs, where all consequences prescribed under tax regulations for any failure to submit the notification shall befall upon the private individual.

(5) As regards the period beginning on the first day of suspension and ending on the day of submission of the tax return for the tax year of suspension,

a) the consideration (income) received in connection with private entrepreneurial activities before the time of suspension shall be recognized as entrepreneurial income for the tax year when the suspension initiated,

b) the expenses incurred in connection with private entrepreneurial activities before the time of suspension can be claimed as entrepreneurial expenses for the tax year when the suspension initiated, and shall be applied in the tax return filed for the tax year when the suspension initiated. As regards the incomes and expenses, other than those mentioned in the prior, received or incurred after the time of filing the tax return for the tax year when the suspension initiated, the provisions pertaining to the assessment of income from self-employment activities shall apply to each subsequent tax years on the first day of which suspension was still in place.

Itemized Flat-Rate Taxation for Private Individuals Providing Private Lodging Services

Section 57/A.

(1) Private individuals providing private accommodation shall mean the provision of accommodation - not in the capacity of private entrepreneurs - to a private individual or individuals for recreational and holiday purposes, to the same private individual for less than ninety days in any tax year.

(2) The private individuals providing private accommodation shall have the option to select itemized flat-rate taxation regarding such activities for the entire tax year subject to the provisions of the Act on the Rules of Taxation, provided that the private individual is the holder in title or the beneficial owner of the residential or resort property in question, that was not originally designed and constructed to function as an accommodation.

(3) In connection with itemized flat-rate taxation, all accounting documents pertaining to the activities must be retained in accordance with the provisions of this Act. Transferring to itemized flat-rate taxation will not relieve the private individual from other obligations conferred upon him by other legal regulations (e.g. invoicing and issuing receipts).

(4) The amount of itemized flat-rate tax shall be 32,000 forints per year for each room. The itemized flat-rate tax shall be paid in equal installments according to the Act on the Rules of Taxation; if the activities are terminated, this amount must be paid within 15 days of the effective date of termination.

(5) Where a private individual has legitimately transferred to itemized flat-rate taxation and, due to subsequent changes, lost this eligibility for being unable to meet either criteria, the provisions pertaining to tax liability on income from self-employment activities shall be applied with respect to his proceeds from lodging services received as of the first day of the quarter in which the change took place. In this case, the private individual shall pay a portion of the tax amount specified in Subsection (4) in a manner that is consistent with the previous quarter or quarters in the same tax year.

(6) Where the transfer of a private individual to itemized flat-rate taxation is illegitimate, the provisions pertaining to tax liability on income from self-employment activities shall be applied with respect to the proceeds from lodging services he received throughout the entire tax year.

(7) If the private individual has terminated his private lodging services, any income received and any expenses incurred in connection with such activities after the effective date of termination shall be treated as if received or incurred before the date of termination.

(8)

Section 57/B.

Section 57/C.

Chapter XI

TRANSFER OF ASSETS

Income from the Transfer of Movable Property

Section 58.

(1) Income from the transfer of movable property shall be considered received as on the date of the relevant contract. In the absence of a contract, the general rules shall be applied regarding the date of receipt of such income.

(2) All proceeds received by a private individual in connection with the sale of movable property shall be considered as income from the transfer of movable property. This covers, in particular, the selling price, the fair market value of an asset received in exchange effective as for the day of transfer, and also the value of the movable property if supplied in place of a capital contribution to a business association or other firm (contribution in kind) in the amount indicated in the articles of association of the business association or other similar document.

(3) Income received from the transfer of movable property shall be assessed in such a manner that the following substantiated expenses charged to the transferring private individual are subtracted from the revenues (with the exception of those already claimed as expenses in respect of his revenues received from any of his activities):

- a) the amount used for the acquisition, and other relevant expenses;
- b) value-increasing investments;
- c) expenses incurred in connection with the transfer.

(4) The amount of acquisition shall be the value specified in the contract, invoice, receipt, delivery certificate, etc. on the purchase, or in the case of movable property received in exchange, the value indicated in the contract of exchange. In respect of movable property imported from abroad, the amount applied as the basis for customs duty, or if no customs duty was imposed the invoice amount as translated to forints shall be considered the amount of acquisition. In the case of inheritance, the amount of acquisition of the movable property shall be the value established in the probate proceedings, or if received without compensation, the value based on which the duties were imposed, or if no such value is available, the fair market value of the movable property at the time of acquisition, and - or otherwise - if any tax has

been paid on the income that is taxable at the time of acquisition of the movable property, this income shall also constitute part of the acquisition value.

(5) If the amount of acquisition cannot be determined as per the provisions of Subsection (4), 25 per cent of the revenues shall be considered as income.

(6) The rate of tax on the income received from the transfer of movable property shall be 25 per cent. The tax shall be determined in the tax return of private individuals, and shall be paid by the same deadline prescribed for filing the tax return.

(7) The portion of the tax on the combined income received during the year from the transfer of movable property, which is not in excess of 50,000 forints, shall not be paid.

(8) The provisions laid down in Subsections (1)-(7) may not be applied when movable property is transferred within the framework of gainful activities. In such cases the regulations on income from self-employment activities shall apply, unless the private individual has acquired the income by way of private entrepreneurial activities. In the application of this provision any transfer against consideration shall be recognized as a gainful activity if it also entails the private individual's right to deduction of value added tax if properly registered.

(9) The provisions laid down in Subsections (1)-(7) may not be applied to the part of the proceeds from the sale of movable property that is in excess of the fair market value of the movable property in question prevailing at the time of contracting.

Income from the Transfer of Real Estate and Rights in Immovables

Section 59.

Income from the transfer of real property or from the creation, transfer (permanent assignment) or termination of rights in immovables, or from the waiver of such rights (hereinafter referred to as "transfer of rights in immovables") shall be considered obtained on the date when the valid contract (document, court or official decision) pertaining to such transfer is filed with the real estate supervisory authority. In respect of the transfer of rights in immovables, which are not required to be recorded in the real estate register, the date of obtaining the income shall be the date of the underlying contract.

Section 60.

(1) In respect of real estate properties and rights in immovables, which must be registered in the real estate register, the date of acquisition shall be the date when the valid contract (document, court or official decision) pertaining to such transaction is filed with the real estate supervisory authority, or the Duties Office if submitted prior to 1 July 1986. In respect of rights in immovables, which need not be registered in real estate register, the date of the underlying contract shall be regarded as the date of acquisition. In the case of inheritance, the date of acquisition shall be the day when the inheritance becomes available. In respect of the sale of real estate by a legal person to a private individual before 1 January 1989, the date of acquisition shall be the date of the contract.

(2) By way of derogation from what is contained in Subsection (1), the date of acquisition of real estate property received in exchange due to redevelopment or expropriation shall be the date of acquisition of the original real estate.

(3) By way of derogation from what is contained in Subsection (1), during the period of ownership or possession of a real estate property, as regards the construction of an edifice (building, building section, structure, part of a structure) on the property after 31 December 2007 - including if a building constructed any time before the above-mentioned time limit is replaced or rebuilt -, and in the case where the net floor space of a building existing at the time of acquisition or before the above-mentioned time limit is enlarged by more than six square meters:

a) the effective date of the resolution containing the last occupancy permit (continuation permit) shall be treated as the date of acquisition,

or by way of dividing the costs mentioned in Paragraphs b)-c) of Subsection (1) of Section 62 as deducted from the income with the sum appropriated for encroachment, remodeling, increasing the floor space, as selected

b) the date of purchase described in Subsections (1)-(2) in connection with any income from the land parcel (landed property), and the real estate property, or as regards the building constructed before the above-mentioned time limit, and in connection with any income from the construction of a new building or increasing the floor space of an existing one, the date specified in Paragraph *a)* shall be treated as the date of acquisition.

(4) In connection with the construction of a new building or increasing the floor space of an existing one, for which an occupancy permit (continuation permit) has not been granted, if implemented after the effective date of the resolution containing the last occupancy permit (continuation permit), or irrespective of the above, during the period of ownership or possession, the provisions contained in Subsection (3) shall apply to the aforesaid construction of a new building or increasing the floor space of an existing one with the exception that the year of actual occupancy if verified by reliable means, or if the year of actual occupancy cannot be verified by reliable means, the year when the transfer took place shall be treated as the year of acquisition.

Section 61.

(1) All proceeds received by a private individual in connection with the sale of real estate or rights in immovables shall be considered as income from the transfer of real estate or rights in immovables. This covers, in particular, the selling price, the fair market value, effective on the day of transfer, of an asset received in exchange, and also the value of the real estate or rights in immovables if it is furnished in the place of a capital contribution to a business association or other firm (contribution in kind) in the amount indicated in the memorandum of association or other similar document of the business association.

(2) The fraction of the income received in compensation for the transfer that is in excess of the known fair market value prevailing at the time of the transaction shall be deemed other income, and it shall not comprise a part of the above-specified income.

(3) Subsection (1) above shall apply to any income of non-resident private individuals obtained through the transfer or withdrawal of participating interest held in a company falling under the scope of the Act on Corporate Tax and Dividend Tax, with real estate holdings, for consideration, including the conveyance of such participating interest by way of lending arrangements, with the exception that - by way of derogation from what is contained in Section 62 - the provisions pertaining to income from securities lending arrangements, capital gains income and income withdrawn from the business account shall apply.

(4) Voluntary land exchange for the purpose of land consolidation, as defined in the Act on Arable Land, shall not be construed as transfer (sale) for the purposes of this Act. If value compensation is also involved in connection with such exchange, the amount of cash or other valuable consideration received on such grounds shall be applied as other income for the recipient private individual.

Section 62.

(1) The following expenses, as substantiated and paid by the transferring private individual, shall be subtracted from the income received from the transfer of real estate and/or rights in immovables, with the exception of those already claimed as costs in respect of his revenues from any of his activities:

- a) the cost of acquisition and other expenses related thereunto;
- b) value-increasing investments;
- c) expenditures incurred in connection with the transfer, including any sums paid as substantiated based on a commitment to the state in connection with the property in question.

(2) The amount of acquisition shall be the value specified in the contract of transfer (document, court or official decision), or the value specified in the exchange contract in respect of real property or rights in immovables received in exchange, or if no such value is available, the value serving as basis for establishing the relevant duties. In the case of inheritance, or if the transferred real property or right was given to a private individual as a gift, the amount serving as the basis for establishing the relevant duties shall constitute the amount of acquisition. In respect of arable land and forest land acquired by exercising the purchase option governed by indemnity laws, the amount indicated as the purchase price shall be regarded as the amount of acquisition, if the income is not required to be established in accordance with the provision of Subsection (1) of Section 64. In the case of a private individual purchasing a residential suite from a local self-government, the actual purchase price indicated in the contract shall be regarded as the

amount of acquisition. The sums spent on the encroachment, remodeling or increasing the floor space of a building as specified in Subsection (3) of Section 60 shall comprise the sum shown on the invoice made out to the name of the private individual on whose behalf the work is performed before the effective date of the resolution containing the occupancy permit (continuation permit), or before the deadline for compliance with the conditions specified in the occupancy permit (continuation permit), or before the time of actual occupancy in the case defined in Subsection (4) of Section 60, or if this cannot be established, before the time of transfer.

(3) If the amount of acquisition cannot be established according to the provisions of Subsection (2), 75 per cent of the receipts shall be deducted.

(4) The income from the transfer of real property, if such transfer takes place in the year of acquisition or within the following five years, shall be the amount calculated according to the provisions of Subsections (1)-(2) (for the purposes of this Section hereinafter referred to as "calculated amount"). Subsequently, the income shall be established by deducting, if the transfer is executed, taking the year of acquisition as the first year,

- a) in the sixth year, 10 per cent of the calculated amount,
 - b) in the seventh year, 20 per cent of the calculated amount,
 - c) in the eighth year, 30 per cent of the calculated amount,
 - d) in the ninth year, 40 per cent of the calculated amount,
 - e) in the tenth year, 50 per cent of the calculated amount,
 - f) in the eleventh year, 60 per cent of the calculated amount,
 - g) in the twelfth year, 70 per cent of the calculated amount,
 - h) in the thirteenth year, 80 per cent of the calculated amount,
 - i) in the fourteenth year, 90 per cent of the calculated amount,
 - j) in the fifteenth year, 100 per cent of the calculated amount,
- from the calculated amount.

(5) Income from the transfer of rights in immovables shall be the amount calculated according to the provisions of Subsections (1)-(3), with the exception that valuable consideration received from the transfer of any rights in immovables acquired before 1 January 1982 shall not be regarded as revenue.

(6) By way of derogation from what is contained in Subsections (4)-(5), in connection with the transfer of:

a) a constructed structure registered, or in the process of being registered in the register of the real estate supervisory authority as a detached house or a residential suite and the land on which it stands (including the parcel of land on which the residential suite has dominant tenement);

b) rights in immovables;

income from such transfer shall comprise

1. 100 per cent of the calculated amount in the year of acquisition and in the following year,
2. 90 per cent of the calculated amount in the second year following the year of acquisition,
3. 60 per cent of the calculated amount in the third year following the year of acquisition,
4. 30 per cent of the calculated amount in the fourth year following the year of acquisition,
5. 0 per cent of the calculated amount in the fifth year following the year of acquisition and in subsequent years.

(7) In connection with the transfer of a residential suite that was obtained with residential housing allowance in accordance with the provisions of the PIA in effect before 1 January 2008, the calculated amount referred to in Subsection (6) shall include the same amount on which the residential housing allowance was based, if the transfer took place in the year when the residential housing allowance was claimed or before the last day of the fourth calendar year following that year.

Section 63.

(1) The rate of tax on the income from the transfer of real property or rights in immovables shall be 25 per cent. The tax shall be assessed in the tax return of private individuals, and shall be paid by the same deadline prescribed for filing the tax return.

(2) Where a private individual uses the income from the transfer of a real estate property or a right (or any part of such income), before the prescribed deadline within which the income must be declared, for purchasing an accommodation in a home for the elderly or a residential home for the handicapped, or in a similar (e.g. nursing) institution (in any EEA Member State) without repurchase and resale rights for

himself, for a close relative or for his domestic partner (including where the prepayment of accommodation charges is required), and the private individual indicates this fact in his tax return, the tax assessed and declared according to Subsection (1) (or the part of this tax applicable to the amount of the income used for this purpose) need not be paid.

(3) Private individuals shall be entitled to tax compensation up to the amount of tax assessed, declared and paid according to Subsection (1) in the tax return filed for the first and second tax years following the time of transfer of the real estate property, that may be claimed in accordance with Subsections (4)-(5) as tax paid in the tax return filed for the year of use.

(4) The tax compensation referred to in Subsection (3) shall be calculated by multiplying the sum used during the tax year for the purpose specified in Subsection (2) from the income assessed according to this Section that remains after deducting the tax paid with the tax rate specified in Subsection (1) as applicable to the assessment of the tax as paid.

(5) The sum mentioned in Subsection (4) may not exceed the amount of tax declared and paid on the transfer of real estate property or right, with the tax compensation claimed in the tax return filed for the previous tax year according to Subsections (3)-(4) deducted during the second year following the transfer of the real estate property in question.

(6) Use for the purpose defined in Subsection (2) may be verified by a document in proof of acceptance for accommodation, a document in proof of use of the sum in question, an authentic instrument in proof of relation, or a private document with full probative force to verify domestic partnership, for which the relevant provisions of the Act on the Rules of Taxation pertaining to terms of limitation and to retaining accounting documents shall apply.

(7) Upon the request of a private individual liable to pay the tax assessed according to Subsection (1), the state tax authority may reduce or cancel that tax given the private individual's income, financial and social circumstances and in light of the intended purpose for which the income from the transfer of the real estate property or right is planned to be used (such as, for covering the housing needs of the private individual himself, a close relative, domestic partner, or previous spouse).

(8) This provision also applies to a private individual who is not a private entrepreneur regarding his income from the cancellation of a real estate leasing transaction.

(9) The income referred to in Subsection (8) shall be calculated in accordance with Subsection (4) or (6) of Section 62 from the sum payable (paid, credited) to the private individual under the relevant contract due to a cancellation clause fixed in that contract, with the exception that for the purposes of the aforesaid provisions the income received shall be treated as the calculated amount, and the year when the contract was signed shall be treated as the year of acquisition.

Section 63/A.

Section 64.

(1)

(2) A private individual, who is the original beneficiary on the basis of the laws on indemnity (acquiring compensation notes as the person receiving restitution), if using his total income received from the transfer of such arable land or forest land acquired by exercising his purchase option, including if purchasing the aforementioned land by (also) using the funds received as agricultural entrepreneurial subsidies, as established in accordance with the provisions of or as prescribed under this title, for the acquisition of the ownership of arable land under agricultural cultivation that is located in Hungary - or in a Member State of the European Union effective as of the operative date of the Act promulgating the treaty on the accession of the Republic of Hungary to the European Union - within one year of the day of transfer, shall be entitled for refund regarding the tax paid on such income (or shall not be required to pay such tax). The private individual shall apply this allowance by filing for tax refund with a declaration on the substantiated acquisition of ownership to the tax authority attached, or if the acquisition of ownership materialized prior to paying the tax, it shall be applied in the tax return, simultaneously with providing proof thereunto.

(3) The provision prescribed in Subsection (2) may be applied to the transfer of arable land or forest land of a private individual who qualifies as a part-owner of land according to the Act on the Enactment of Act I of 1992 on Cooperatives and on Transitional Provisions, which was issued to such private individual (and

registered under his name) as independent real estate in accordance with the provisions of the aforementioned Act.

(4) The contract submitted to, and registered by the real estate supervisory authority shall serve as proof of the acquisition of the ownership right described in Subsections (2) and (3).

Income Received on the Basis of Alimony, Life-Annuity or Inheritance Contracts

Section 64/A.

(1) The tax on the income from the transfer of movable property, real estate or rights in immovables as part of alimony, life-annuity or inheritance contracts, if no tax-exemption applies, shall be 25 per cent, otherwise the provisions of Sections 58-62 shall be applied with the exceptions described in Subsections (2)-(5).

(2) The date of acquisition of income received on the basis of an inheritance contract shall be the date of filing the application for registration of a prohibition of transfer or lien by the real estate supervisory authority in respect of the transfer of a real property or rights in immovables, or the contract date in respect of the transfer of a movable property.

(3) Income shall be established as per the following:

a) the value of transfer indicated in the contract shall be applied as revenue, or if not available

b) the market value established by the appraisal of the state tax authority shall be regarded as revenue
or

c) one-third of the expenses substantiated in accordance with the provisions on the transfer of movable property, real estate and rights in immovables shall be applied as income.

(4) The tax described in Subsection (1) shall be paid by the party paying the alimony or annuity according to the provisions of the Act on the Rules of Taxation pertaining to the payment of income tax deducted by the payer after the date of acquisition of the income.

(5) The party subject to pay the tax may agree with the private individual in the relevant contract as to the private individual assuming payment of such tax by providing the amount of the tax to the party who is liable to pay the tax, who shall then remit such amount to the tax authority. Should the private individual fail to meet his assumed obligation by the deadline for filing the tax return, the payer shall become liable to pay the tax regardless of the consequent legal dispute.

(6) In respect of life-annuities paid in cash, instead of the provisions described in Subsections (1)-(5) the following options shall be available at the time of signing the contract:

a) the revenue from life-annuity shall be regarded as income in its entirety,

b) the date of acquisition of the income described in Paragraph a) shall be considered in accordance with general rules,

c) the tax shall be 25 per cent,

d) the party paying the annuity shall deduct the tax from the income and shall pay it to the tax authority, with the exception that in this case the private individual shall not be required to declare such income and its tax.

(7) In respect of

a) alimony contracts assumed without compensation (consideration) the provisions pertaining to in-kind benefits,

b) regarding life-annuities the tax shall be 35 per cent, for the payment (declaration) of which the provisions regarding the tax payable on dividend income as described in this Act

shall be applied, whereby the payment in kind shall be regarded as being provided on a monthly basis.

Chapter XII

INCOME FROM CAPITAL INVESTMENTS

Interest Income

Section 65.

(1) 'Interest income' shall mean - in due observation of what is contained in Subsection (5) - the following:

a) from the interest credited and/or capitalized based on a contract (including standard service agreements and interest conditions) made between the private individual and a payment service provider in connection with the balance of any deposit account (savings deposit account), or payment account that is not in excess of the fair market value;

b) in connection with debt securities and collective investments in transferable securities, which are offered and traded publicly and if they fit the definition contained in the Act on the Capital Market, in due observation of what is contained in Subsection (6):

ba) the income paid to the private individual under the title of interest and/or yield, if the securities are held at a specific time prescribed as a precondition for entitlement to interest and/or yield,

bb) the gains achieved when called, redeemed, or transferred [not including the transfer of collective investments in transferable securities in an exchange market in accordance with the Act on the Capital Market, or in a market of another EEA Member State or in a Member State of the Organization for Economic Cooperation and Development (OECD) from the income payable to the private individual - irrespective of the net current value, accumulated interest or yield it represents - to the extent established according to the provisions on capital gains;

c) by way of derogation from Paragraphs *a)-b)*, if the interest income established according to Paragraphs *a)-b)* represents any asset (e.g. a merchandise awarded in connection with prize drawing deposits, or securities) from which the tax cannot be deducted, the amount that remains after the tax referred to in Subsection (2) is deducted and it equals the fair market value of the asset (the amount of the prize pool);

d) income

da) received by virtue of residual rights attached to an insurance contract,

db) received under a life assurance contract, from pension insurance as part of the settlement, that is not otherwise tax exempt, of the amount that exceeds

1. from the premium(s) paid by the private individual himself, or by others to his benefit, except if it has already been claimed by the private individual or by any other private individual as expenses,

2. from the amount of taxable insurance premium(s),

the part of the premium reserve deducted relative to the amount of premium reserve before the deduction; this provision shall not apply to any income where the private individual has already claimed the premium for the underlying insurance contract, or a part of that premium under expenses, or to any income where the premium of the underlying life assurance contract, or a part of that premium paid by another person other than a private individual was granted exemption, and the private individual did not pay the tax on such premium - shown under other income - before the time of deduction of the premium reserve as opened up upon the conversion of the contract, moreover, if the premium reserve is deducted repeatedly, the part of the proportionate premium amount that exceeds together with proportionate premium amounts from previously the aggregate of all premiums paid up (in the absence of any amount that may be taken into consideration, the basis for comparison shall be zero);

e) in connection with any cooperative established by way of transformation in accordance with Act II of 1992 on the Enactment of Act I of 1992 on Cooperatives and on Transitional Provisions, or a cooperative formed by the former members of such cooperatives, furthermore, any cooperative formed before 31 December 1993 under the provisions of Act I of 1992, and any cooperative of the ones mentioned above which continued operating by way of amending their by laws in accordance with Section 106 of Act X of 2006 on Cooperatives, the part of the interest on any loan provided by the members to the cooperatives (including the interest paid by a cooperative on cooperative shares), that exceeds the central bank base rate prevailing at the time when charged by not more than 5 percentage points, provided that the cooperative does not provide any credit to its members apart from the objectives and above the limits specified by law, it does not deposit any sums in a financial institution to cover the borrowings of its members, it does not undertake suretyship, and it does not provide money on account in excess of what is normally required for business operations (e.g. for purchases of materials, fuel), with the exception that these provisions shall also apply to loans granted by members of the private limited-liability companies established by way of transformation, partial transformation from the cooperatives mentioned above in their capacity as cooperative members;

f) from the sum that becomes due and payable to a member of an employer sponsored pension institution (or to his beneficiary or heir) when the member's employment is terminated before the period to which the provisional right pertains expires, the sum that is in excess of the supplement the member has paid to the employer's contribution,

whereby any interest income provided above the interest rate specified in Paragraph *e*) or by way of derogation from the conditions specified therein shall be shown under other income for the private individual in question; otherwise, the legal title of tax liability in connection with any interest income not mentioned in Paragraphs *a*)-*d*) and *f*) or that is obtained by way of derogation from the conditions defined therein shall be determined in consideration of the contract between the parties affected (meaning the private individual and the person paying the interest income, or between these persons and a third party), and the relating tax liabilities of the payer or the private individual shall be satisfied accordingly (including, in particular, the assessment, payment and declaration of income, tax amount, tax advance, and the related disclosures).

(2) The tax on interest income shall be 20 per cent, and accordingly, the tax in the case described in Paragraph *c*) of Subsection (1) shall be one-quarter of the fair market value of the asset (or the prize pool in connection with prize drawing deposits). The tax, if the interest income:

a) is received from a payer [in the application of this Section, in the cases of Paragraphs *a*)-*c*) of Subsection (1) including any credit institution or investment service provider paying the interest income in lieu of the payer], shall be established for the time of acquisition, and shall be deducted, paid and declared by the payer, with the exception that, in the case defined in Subparagraph *bb*) of Subsection (1), the private individual shall be entitled to claim in his tax return filed without assistance from the tax authority or by way of self-assessment that part of the purchase price of securities and the incremental costs associated with the securities that the payer did not take into account when determining income:

aa) subject to a certificate issued by the payer that contains an indication, entered by the payer at the private individual's request, of having issued the certificate for the said purpose,

ab) provided that the private individual declares (or has declared) the interest income and the tax deducted based on the certificate mentioned in Subparagraph *aa*);

b) is received from sources other than a payer, shall be established by the private individual in his tax return filed without assistance from the tax authority, and shall be paid by the deadline prescribed for filing the tax return,

in due observation of the provisions of Subsections (3)-(9), and the special rules of taxation applicable to the income of foreign nationals laid down in Act on the Rules of Taxation, with the exception that the payer shall disclose the contents of the certificate mentioned in Subparagraph *aa*) to the tax authority.

(3) The following shall not be taken into consideration:

a) as income,

aa) any sum - below the prize pool - that the payer has paid or credited to the private individual in redemption of the prize that was credited to the deposit account,

ab) the revenues in connection with which Schedule No. 7 to the Act on the Rules of Taxation prescribes compulsory data disclosure,

ac) 50 per cent of any income, that is otherwise treated as interest income under Paragraph *d*) of Subsection (1), if obtained after the fifth anniversary of the insurance contract, or the fourth anniversary if the contract does not terminate at the time of payment,

ad) 100 per cent of any income, that is otherwise treated as interest income under Paragraph *d*) of Subsection (1), if obtained after the tenth anniversary of the insurance contract, or the sixth anniversary if the contract does not terminate at the time of payment,

however, in the cases where the insurance contract is not terminated in consequence, Subparagraph *ac*) shall apply if the deduction took place from premium reserve accumulated more than four years prior to the time of deduction, and Subparagraph *ad*) shall apply if the deduction took place from premium reserve accumulated more than six years prior to the time of deduction;

b) as interest income,

ba) the interest credited and/or capitalized on a private entrepreneur's current account notified as such, if he did not suspend his activities, that is mentioned in Paragraph *a*) of Subsection (1) and otherwise accounted as income,

bb) the income referred to in Subsection (1), where income from long-term investments has to be established according to specific provisions of this Act.

(4) The date of acquisition of interest income:

a) for the interest mentioned in Paragraph *a)* of Subsection (1), it is the day when the interest is in fact credited and/or capitalized upon the fulfillment of conditions agreed upon according to the contract between the private individual and the credit institution;

b) is the day when the winnings are credited to the deposit account in connection with prize drawing deposits;

c) in the cases not mentioned in Paragraphs *a)-b)*, it is the day when the transfer or postal dispatch is effected, or when the income is actually handed to the private individual.

(5) In connection with transactions involving the financial instruments referred to in Subparagraph *bb)* of Subsection (1) - recognized as the equivalent of a transaction on a controlled capital market -, the private individual shall have the option to either declare the profit or loss realized on transactions in his tax return according to the provisions on controlled capital market transactions (including the provisions on tax compensation), provided that all other conditions prescribed by the said regulations are satisfied, where, in connection with any transaction concluded with an investment service provider recognized as a payer:

a) the private individual may apply this provision if he makes a statement, with his tax identification code enclosed, before the last day of the tax year of making that choice;

b) the investment service provider shall provide a certificate to the private individual based on the statement referred to in Paragraph *a)* on the transaction(s), and shall supply data to the state tax authority according to the provisions on controlled capital market transactions;

c) the private individual shall apply the tax the investment service provider has deducted according to the provisions on interest income as a tax advance.

(6) From the income referred to in Subparagraph *ba)* of Subsection (1) - if it qualifies as interest and/or yield first obtained following the acquisition of securities - the interest and/or yield paid as part of the purchase price of the securities up to the date of purchase that is calculated and accumulated according to the conditions of the securities may be deducted, however, in the case mentioned in Subparagraph *bb)* of Subsection (1) the amount deducted in this manner may not be taken into consideration as part of the purchase price of the securities when the securities are called, redeemed or transferred. In connection with collective investments in transferable securities, redemption shall also cover when the securities are exchanged upon the transformation or merger of the investment fund for the investment certificates of the successor fund, where the value at the time of exchange shall be taken into account as the cost of acquisition, with the exception that the tax assessed upon such transactions shall be paid subsequently together with the tax on the interest income earned upon redemption according to Subparagraph *bb)* of Subsection (1), or decreased by the tax amount calculated by the rate referred to in Subsection (2) on the sum of the aforementioned acquisition value that is in excess of the income.

(7) The records system for the transfer, calling and redemption of securities, and for the payment crediting and capitalization of interest and/or yield shall be set up and operated to contain adequate facilities for the production of any data and information which would be relevant for the purposes of implementation of the provisions of Subsection (6) which are prescribed mandatory for the transfer of dematerialized securities amongst payers.

(8) If the data available at payers who did not join the records system referred to in Subsection (7) is insufficient to support:

a) that the private individual did not obtain any income under the title of interest and/or yield; or

b) the amount of deduction according to Subsection (6) from the income that qualifies as interest and/or yield first obtained,

and it is not verified by the private individual following acquisition of the securities, the payer shall establish the amount of interest income based on the face value of securities as the purchase price of the securities.

(9) In respect of any interest income received by a resident private individual that is also subject to taxation in another country, the tax paid in such country shall be deducted from the tax payable. In the absence of an international agreement, the inclusion of tax paid abroad shall not reduce the tax payable on interest income below 5 per cent, and any tax refund that is due to the private individual by virtue of an international agreement, reciprocity, or foreign law from the income tax paid may not be claimed under taxes paid abroad.

Income from Securities Lending

Section 65/A.

- (1) All proceeds from the lending of securities as defined in the Act on the Capital Market received by a private individual shall be deemed income.
- (2) The rate of tax on the income produced by securities lending operations shall be 25 per cent.
- (3) The payer shall assess the tax at the time of payment and shall declare and pay it in accordance with the Act on the Rules of Taxation.

Profit Realized on Swaps

Section 65/B.

(1) Profit realized on swaps shall mean the fraction of the proceeds received by a private individual in a tax year in connection with interest-rate, currency and equity swaps (swap receipts) conducted in accordance with the Accounting Act that is in excess of the expenses (swap expenses) the private individual has incurred and verified as directly related to the transaction in question (hereinafter referred to as “profit realized on swaps”). Any sum of swap expenses that is in excess of swap receipts shall be treated as a loss realized on swaps.

(2) The tax rate of profits realized on swaps shall be 25 per cent.

(3) Profits and/or losses realized on swaps:

a) shall be determined by the payer at the end of the tax year separately for each transaction, and they shall supply a certificate to the private individual affected by 31 January of the year following the tax year broken down according to transactions, and shall disclose such information to the state tax authority according to the procedure prescribed under the relevant provisions of the Act on the Rules of Taxation;

b) shall be recorded by the private individual in the absence of a payer.

(4)

(5) By way of derogation from what is contained in Subsection (2), the definition of the income established according to Subsections (1)-(2) and the amount of tax liability shall be determined in consideration of the contract between the parties affected (meaning the private individual to whom the income was paid and the other party to the transaction, or between these persons and a third party) and the circumstances under which the income was obtained if it is established that the private individual arranged the transaction in a way to make a profit without any real risk, by setting conditions in derogation from the market price, exchange rates, interest rates, fees and other factors.

(6) In connection with the income specified in this Section the payer is not subject to the obligation of tax deduction. The private individual affected shall assess the profit realized on swaps and the tax payable on such income following the end of the tax year separately for each transaction, and shall declare them in his tax return filed for the tax year, and shall pay the tax by the deadline prescribed for filing tax returns.

(7) If a swap is carried over to the next tax year, and if the private individual realizes any loss on this swap that covers such carried over period (as well) - also where Subsection (5) applies -, and indicates this loss separately for each transaction in his tax return filed for the tax year when the loss was realized, the private individual shall be entitled to tax compensation that may be claimed in accordance with Subsections (8)-(9) as tax paid in the tax return.

(8) Tax compensation shall be established separately for each transaction on an annual basis, cumulatively (carried over) under the duration of the transaction, supported by regularly updated bookkeeping records. These records shall be treated as documents for which the relevant provisions of the Act on the Rules of Taxation pertaining to terms of limitation and to retaining accounting documents shall apply.

(9) The bookkeeping records for tax compensation shall be maintained in accordance with the following:

a) for the year when the transaction was opened the following shall be indicated in the tax return filed for the year when the transaction was initiated:

aa) the amount of tax declared on the profit realized on swaps (hereinafter referred to as “tax compensation account”), or

ab) the loss realized on swaps multiplied with the tax rate specified in Subsection (2), in effect at that time (hereinafter referred to as “amount of eligibility for tax compensation”);

b) for each subsequent year:

ba) the tax declared on the profit realized on swaps during the year shall be added to tax compensation account,

bb) the loss realized on swaps multiplied with the tax rate specified in Subsection (2), as declared for the tax year, shall be added to the amount of eligibility for tax compensation;

c) any tax compensation claimed during the tax year on any loss realized on swaps shall be deducted from the tax compensation account and from the amount of eligibility for tax compensation, representing the sum of the carried over amount of eligibility for tax compensation established according to Subparagraph *ab)* or *bb)* that is not in excess of the tax compensation account established (carried over) according to Subparagraph *aa)* or *ba)*.

(10)

Dividend Income

Section 66.

(1) All revenues of private individuals received as dividends or dividend advance shall be considered income. For the purposes of this Act (where the income received under the titles referred to in Paragraphs a)-b) shall not be treated as dividend if, according to the relevant regulations, it shall be applied in connection with other income, such as any supplementary salary for personal involvement paid from dividend):

a) 'dividend' shall mean:

aa) a share provided to the private individual from the business association's taxed profit established in accordance with the Accounting Act that is available from the current year and has been ordered for distribution by the business association, or from the taxed profit supplemented by available profit reserves from the current year,

ab) interest on interest-bearing shares,

ac) income specified as dividends by the laws of other countries,

ad) the yield of venture capital notes;

b) 'dividend advance' shall mean any prepayments of dividends made on the dividend estimated for the tax year.

(2) Tax rates shall be as follows:

a) 10 per cent on any dividend (dividend advance) on securities listed on any recognized (regulated) market of any EEA Member State in accordance with the Act on the Capital Market that is treated as dividend (dividend advance) under the national laws of the Member State in question;

b) 25 per cent on any dividend (dividend advance) not mentioned in Paragraph *a)*.

(3) The tax on dividends (dividend advances) shall be assessed by the payer:

a) for the purposes of this Section, including resident credit institutions and investment service providers, in connection with any payment (credit) of dividend (dividend advance) earned abroad to a private individual through the securities account (securities escrow account) it maintains on behalf of that private individual;

b) in due consideration of what is contained in Subsection (4) of Section 15 and of the special rules of taxation applicable to the income of foreign nationals laid down in Act on the Rules of Taxation;

at the time of payment, and shall be declared and paid in accordance with the relevant provisions of the Act on the Rules of Taxation. If there is no payer involved, the tax shall be assessed by the private individual affected, and paid by the 12th day of the first month that follows the quarter when the payment was made. The amount of dividend advance and the tax shall be indicated for information purposes in the tax return filed for the year when the payment was made, and the amount of dividend paid as approved, and the tax deducted shall be declared in the tax return filed for the year when the resolution establishing the dividend was approved, and shall show the tax deducted and paid from the dividend advance as tax deducted.

(4)

(5) In respect of those dividends received by a resident private individual that are also subject to taxation in another country, the tax paid in such country shall be deducted from the tax. In the absence of an international agreement, the inclusion of tax paid abroad shall not reduce the tax payable on dividends below 5 per cent, and any tax refund that is due to the private individual by virtue of an act, international

agreement, reciprocity, or foreign law from the income tax paid may not be claimed under taxes paid abroad.

Capital Gains Income

Section 67.

(1) 'Income from capital gains realized' shall mean the proceeds received upon the transfer of securities (not including lending arrangements), less the purchase price of the securities and any incidental costs associated with the acquisition of the securities. Any portion of the said profit that is to be treated as part of some other type of income in accordance with this Act shall not be considered as a capital gain.

(2) The rate of tax on capital gains income shall be 25 per cent.

(3) The amount of earnings shall be determined on the date of the contract for the transfer of the securities. Where the private individual has acquired title to the securities by way of borrowing, the income shall be determined effective:

a) as on the day when the securities are returned (surrendered);

b) as on the day of termination of the contract if it was terminated (including any term of limitation) without the securities being returned (surrendered).

(4) Tax liability on the income referred to in Subsections (1) and (3) shall take effect on the day of acquisition of the income. If the income is received in segments, it shall be presumed that the private individual receives these partial payments in amounts distributed equally from the entire sum of income expected.

(5) In accordance with Subsections (1)-(4), the payer shall assess the amount of income realized from the revenues, the tax and tax advance corresponding to the legal title of the income relying on the data and information at its disposal on the day of payment or that can be obtained, or as verified by the private individual relating to acquisition costs and the incremental costs, and shall declare and pay it in accordance with the Act on the Rules of Taxation. If the income does not originate from a payer, the private individual shall establish the tax in accordance with the provisions of Subsections (1)-(4) in his tax return prepared without assistance from the tax authority and pay it before the deadline prescribed for filing.

(6) Private individuals shall include in their tax returns, in the total of their income from capital gains realized during the tax year, or by way of self-assessment of their tax returns, that part of the purchase price of securities and the incremental costs associated with the securities that the payer did not take into account when determining income.

(7)

(8) If the earnings from the sale of securities cannot be determined as on the contracted date of transaction since it may vary depending on one or more future considerations, in connection with the application of the provisions contained in Subsections (1)-(4) this consideration or considerations shall be presumed to have been realized. If, in consequence, any tax difference is shown on behalf of the private individual, a refund may be requested by way of self-revision, or in other cases the procedures referred to in Subsections (5)-(6) shall apply. Where, upon the occurrence of the said future considerations, the parties did not expressly specify the sums by which the income should be adjusted, the income referred to in Subsection (1) shall be determined based on the earnings that were not rendered contingent upon future considerations; however, if, in consequence, any tax difference is shown on behalf of the private individual, a refund may be requested by way of self-revision, or in other cases the income increment shall be shown under other income of the private individual in its entirety, and the procedures referred to in Subsections (5)-(6) shall apply.

(9) For the purposes of the provisions on income from capital gains:

a) 'expenditure for the acquisition of securities' shall mean:

aa) the amount paid for securities, and verified under contract, by way of controlled capital market transactions;

ab) the part of the consideration stipulated for securities acquired under contract, other than a controlled capital market transaction, that is paid by the private individual as verified by the transfer of the securities;

ac) in respect of securities obtained through the foundation of a business association, the amount of capital contribution made, as verified, to the business association as defined in the deed of foundation in exchange for the said securities (this provision shall also apply to the securities obtained through the

increase of the subscribed capital of the business association by way of issuing new securities), provided that the value of the capital contribution as shown in the instrument of constitution shall be taken into account according to the provisions of this Act as part of the income at the time of acquisition of the securities;

ad) in respect of securities that are to be claimed when assessing the income of a private individual in connection with his withdrawal of money from the business account, the value precedent based on this Act for determining the amount of income (this provision shall, in particular, apply to securities acquired through the dissolution of a business association or through the reduction of subscribed capital by way of disinvestment);

ae) for securities acquired by a creditor in consequence of a composition agreement in bankruptcy or liquidation proceeding or in a local self-government debt settlement procedure, the value stipulated in the agreement;

af) for securities based on which an amount is established that is considered income under this Act at the time of acquisition, the amount of income plus the amount of consideration paid by the private individual as verified by the transfer of the securities;

ag) for securities obtained by employees which are listed separately in the analytical records of ESOP organizations pursuant to the government decree adopted under authorization granted in the Accounting Act, the part from the payment contributed by the said employee before the transaction as commensurate for the security in question;

ah) for the cooperative shares and proprietary shares provided to a private individual without consideration in connection with transformation in accordance with the Act on the Enactment of Act 1 of 1992 on Cooperatives and on Transitional Provisions, the face value of the said shares fixed at the time of conclusion of the transformation with regard to the original holder or, if it was conveyed through inheritance, with regard to the heir;

ai) for the securities provided without consideration by a cooperative pursuant to legislation promulgated before 31 December 1992, the face value of the said securities fixed at the time when provided with regard to the original holder or, if it was conveyed through inheritance, with regard to the heir;

aj) for compensation notes, the value of the notes plus interest with regard to the private individual to whom it was issued or, if it was conveyed through inheritance, with regard to the heir;

ak) where the private individual has paid any duties in connection with the acquisition of securities that has to be notified to the authority in charge of duties - also if the duty was not levied by the time of transfer or the authority in charge of duties did not levy any duty -, the market value defined in the Duties Act, plus the consideration the private individual has paid up to the time of transfer, as verified;

al) the part performed by the private individual as verified in connection with the acquisition of all other securities obtained under any other title or in other fashion than those specified under Subparagraphs *aa)-ak)* until they are transferred;

b) 'incremental costs associated with securities' shall mean:

ba) the duties paid at the time of acquisition of the securities;

bb) the costs charged, as verified, to the private individual in connection with the acquisition, maintenance or disposal of securities (including, in particular, the consideration paid for investment services and ancillary services provided in support of investment services or commodity exchange services provided in accordance with the provisions of specific other legislation in connection with the acquisition, maintenance or disposal of securities);

bc) the price charged, as verified, in consideration for the purchase (subscription) right by which to acquire or for the selling right by which to alienate the security (in connection with a gratuitous or complimentary right, including any income that is deemed taxable at the time the right is acquired);

bd) in respect of borrowed securities, the amount spent on the acquisition of the returned (surrendered) security, or if the borrower is not able to return the security the lowest amount of restitution stipulated by the Act on the Capital Market.

c) in the case of termination of an individual retirement account due to the payment of pension benefits, the fair market value in effect on the day of transfer or the acquisition value referred to in Paragraph *a)*, whichever is greater, may be claimed as the cost of the financial instruments held on a retirement securities/deposit account.

(10) In respect of any income from capital gains realized by a resident private individual that is also subject to taxation in another country, the tax paid in such country shall be deducted from the tax payable. In the absence of an international agreement, the inclusion of tax paid abroad shall not reduce the tax

payable on income from capital gains realized below five per cent, and any tax refund that is due to the private individual by virtue of an international agreement, reciprocity, or foreign law from the income tax paid may not be claimed under taxes paid abroad.

Income from Controlled Capital Market Transactions

Section 67/A.

(1) 'Income from controlled capital market transactions' shall mean the profit realized on controlled capital market transaction(s) the private individual has made during the tax year - including the capital market transactions covered by the provisions of this Section at the private individual's choice - (not including interest income, or if income from long-term investments has to be established based on the transaction), and received in money from all such transactions (total profit realized on transactions) that is in excess of the total losses the investment service provider has charged to the private individual in connection with a given transaction or transactions, and paid during the tax year (total loss realized on transactions). Losses on controlled capital market transactions shall include the sum of total loss realized on transactions that is in excess of the total profit realized on transactions.

(2) The tax rate on income from controlled capital market transactions shall be 20 per cent.

(3) For the purposes of this Act 'controlled capital market transaction' shall mean any transaction concluded with an investment service provider according to the Act on Investment Firms and Commodity Dealers, and on the Regulations Governing their Activities - other than swaps - involving financial instruments or commodities, as well as spot transactions concluded within the framework of financial services under the Act on Credit Institutions and Financial Enterprises, or within the framework of services under the Act on Investment Firms and Commodity Dealers, and on the Regulations Governing their Activities involving foreign exchange or currency, where such deals are concluded by financial settlement and if they satisfy the provisions of the said acts pertaining to transactions, and

a) if executed within the framework of activities supervised by the Pénzügyi Szervezetek Állami Felügyelete (*Hungarian Financial Supervisory Authority*) (PSZÁF),

b) that is concluded with an investment service provider operating in the money markets of any EEA Member State, or any other State with which the Republic of Hungary has an agreement on double taxation, and

ba) if executed within the framework of activities supervised by the competent authorities of that State, and

bb) if the given State is not an EEA Member State, there are facilities in place to ensure the exchange of information between the competent authorities mentioned above and PSZÁF, and

bc) for which the private individual has a certificate made out by the investment service provider to his name, containing all data and information for each and every transaction concluded during the tax year for the assessment of his tax liability.

(4) The investment service provider recognized as a payer according to this Act and the Act on the Rules of Taxation shall disclose to the state tax authority the information contained in the documents (certificates of execution) he has made out by 15 February of the year following the tax year - indicating the private individual's name and tax identification number - concerning the income the private individual has realized from transactions executed during the tax year. In connection with controlled capital market transactions the investment service provider is not subject to the obligation of tax (tax advance) deduction.

(5) The private individual affected shall assess - in accordance with the provisions on capital gains as well - the profit realized on such controlled capital market transaction(s) and the tax payable on such income relying on the documents (certificates of execution) made out by the investment service provider or on his own records, and shall declare them in his tax return filed for the tax year, and shall pay the tax by the deadline prescribed for filing tax returns.

(6) If the private individual realized any loss in connection with a controlled capital market transaction during the tax year and/or during the year preceding the current tax year, and/or in the two years preceding the current tax year, and if this loss is indicated in his tax return filed for the year when the loss was realized, the private individual shall be entitled to tax compensation that may be claimed in accordance with Subsections (7)-(8) as tax paid in the tax return.

(7) The tax compensation referred to in Subsection (6) shall be calculated by multiplying the amount of loss declared for the tax year and/or for the preceding two years with the tax rate specified in Subsection (2) in effect at the time of declaration, less any tax compensation already claimed in connection with losses on controlled capital market transactions in the tax return filed for either of the two previous years, not to exceed to sum specified in Subsection (8).

(8) The sum mentioned in Subsection (7) shall comprise the tax on income from controlled capital market transactions declared for the current tax year and/or for the preceding two years, less any tax compensation already claimed in connection with losses on controlled capital market transactions in the tax return filed for either of the two previous years.

(9) By way of derogation from Subsection (1), capital gains shall mean the part from the face value of the securities - if transferred in a controlled capital market transaction, not to exceed the achieved profit - that was not treated as income on the part of the transferor private individual under Paragraph b) of Subsection (2) of Section 77/A and - with the exceptions mentioned in Subsection (5) of this Section - in Paragraph c) and Paragraphs d)-e) of Subsection (2) of Section 77/A, less the purchase price of the securities and any incremental costs associated with the acquisition of the securities.

(10) The tax liability of a private individual in connection with his transfer of commodities through a controlled capital market transaction shall be subject to the provisions pertaining to tax liability on income from self-employment activities in place of the provisions of this Section, if the transaction is discharged upon the actual delivery of the commodities.

Income from Long-Term Investments

Section 67/B.

(1) By way of derogation from specific provisions of this Act, 'income from long-term investment' shall mean the profit the private individual has realized through placing a sum under the conditions and subject to tax liability described under Subsections (2)-(9) of this Section, under a long-term investment contract concluded with an investment service provider or a credit institution, comprising a part of that amount that is in excess of the sum tied up according to the aforementioned regulations, to which the private individual is entitled upon the maturity or interruption of the time deposit, including the fair market value of the financial instruments comprising part of the investment prevailing at maturity or the interruption of the time deposit [for the purposes of Subsections (4)-(5) of this Section hereinafter referred to as "time deposit interest"]. The long-term investment contract constitutes an agreement for the parties to observe the taxation rules laid down in this Section concerning the income in question.

(2) 'Time deposit' shall mean the placing of a specific sum under a long-term investment contract mentioned in Subsection (1) during the tax year, whether in one lump-sum or in installments, where the first installment must be at least twenty-five thousand forints, that the private individual must keep on deposit together with the earnings on the investments made under Subsection (3) (interest, capital gains, profit realized on transaction, dividend etc.) for a period of not less than three calendar years following the calendar year of placement (hereinafter referred to as "three-year term deposit"), and - in the case of renewal - for an additional two calendar years (hereinafter referred to as "two-year term deposit", and the three-year and two-year term deposits hereinafter referred to collectively as "five-year term deposit"), moreover, it must be listed in the register of time deposits maintained by the investment service provider or the credit institution broken down according to accounts on the last day of the agreed term. The funds tied up may not be increased by additional deposits following the calendar year of placement during the three-year and five-year terms apart from the aforementioned earnings, and no transfers are allowed between accounts under the same long-term investment contract. In a given calendar year only one long-term investment contract may be concluded with the same investment service provider or credit institution for each of the purposes referred to in Paragraph a) and b) of Subsection (3). In other aspects there are no limitations as to the number of contracts of this type the private individual may enter into.

(3) To the debit of earnings on time deposits accumulated by the time referred to in Subsection (4) the private individual may - under each long-term investment contract he has concluded - submit unlimited transaction orders (to buy or sell, for placement in another deposit account or for renewal of the existing one, etc.):

a) involving financial instruments denominated in forint in controlled capital market transactions, or other financial instruments denominated in forint (e.g. government securities, investment certificates), the earnings of which are otherwise recognized as interest income,

or

b) for placement in interest-bearing bank deposit (including where funds are isolated on a payment account), or in savings deposit in forint.

The investment service provider or the credit institution shall record the transaction order and its the execution, and the financial instruments and/or funds referred to in Paragraph *a)* the private individual has obtained, or he has transferred, as well as the investments referred to in Paragraph *b)* in the register of time deposits of the underlying contract.

(4) Time deposit interest shall be established:

a) at the time of maturity of the agreed term (on the last day of the five-year term, or - if the private individual decided not to renew the existing deposit - on the last day of the three-year term);

b) at the time of renewal of the existing deposit (if the private individual withdraws the funds tied up, and/or the earnings on investment in part or in whole or removes the financial instrument (any of the instruments) deposited from the register of time deposits).

If the private individual extends the time deposit on the last day of the three-year term for only a part of the funds originally deposited, comprising not less than twenty-five thousand forints, the time deposit shall not be considered interrupted in respect of that sum. No income shall be assessed upon the death of the private individual in connection with a long-term investment contract, if it has occurred before the time of maturity of the time deposit.

(5) The tax rate shall be:

a) zero per cent on any time deposit interest established on the last day of the five-year term;

b) 10 per cent, if the private individual

ba) did not renew the existing deposit, on any time deposit interest established on the last day of the three-year term,

bb) extends the time deposit for only a part of the funds originally deposited, on any time deposit interest established on the last day of the three-year term as commensurate for the funds withdrawn,

bc) terminates the deposit upon maturity of the two-year term, on any time deposit interest established on the day of termination;

c) 20 per cent, if the private individual terminates the deposit before maturity of the three-year term, on any time deposit interest established on the day of termination.

(6) The credit institution and investment service provider recognized as a payer according to this Act and the Act on the Rules of Taxation shall:

a) make out a certificate to the private individual on his income from long-term investments, indicating the day of deposit, the day of maturity or the day when the deposit is terminated by 15 February of the year following the tax year when the income was earned;

b) disclose to the tax authority the information contained in the certificate, indicating the private individual's name and tax identification number;

c) inform the issuer of any securities fixed in the register of time deposits carrying dividend rights, before the payment of dividends, provided that he is not required to deduct any tax from this income.

(7) The private individual is not required to declare his income from long-term investments if the applicable tax rate is zero per cent. In other cases the private individual shall assess the tax in his tax return, and shall pay it by the deadline prescribed for filing this tax return.

(8) If the investment service provider or the credit institution is not subject to data disclosure requirements, the provisions set out in this Section shall apply if the private individual notifies the tax authority - supported by the long-term investment contract concluded with the investment service provider or credit institution - within thirty days of the time of first payment, indicating his name and tax identification number, and the sum deposited, and if having a certificate made out by the investment service provider or credit institution containing the information prescribed in Subsection (6) for determining the income from long-term investments.

(9) Income from long-term investments shall not apply to any period following the day of maturity or the day when the deposit is terminated, and any capital gains realized after the day of maturity or the day when the deposit is terminated shall be governed by the relevant provisions on capital gains, where:

a) if the income is to be established on the basis of the acquisition value, the fair market value in effect on the day of maturity or the day when the deposit is terminated or the acquisition value, whichever is greater, shall be applied;

b) tax compensation may be claimed in connection with any loss on controlled capital market transactions if sustained from transactions concluded after the day of maturity or the day when the deposit is terminated.

(10) For the purposes of Subsection (2), the concept of deposit shall also cover the case:

a) where the private individual closes his individual retirement account on the basis of a long-term investment contract, and transfers the financial instruments held on his securities retirement account to the register of time deposits maintained by the investment service provider, hence converting it into a time deposit (where the day of registration shall be recognized as the day of conversion);

b) where the funds and financial instruments shown in the register of time deposits on the last day of the five-year term are kept in the register of time deposits maintained by the investment service provider by means of a long-term investment contract concluded before the last day of the five-year term, with the exception that:

ba) in respect of financial instruments, the fair market value in effect on the last day of the five-year term or the acquisition value, whichever is greater, shall be recognized as the sum deposited,

bb) the last year of the five-year term shall be recognized as the calendar year of placement.

Income Withdrawn from the Business Account

Section 68.

(1) Regarding the dissolution of a business association (other than ESOP organizations), from the assets of the company which are distributed among its members (shareholders or partners) the fraction that is in excess of the combined total of the amount spent on the acquisition of the securities and the amount of the business association's liabilities in the percentage of holdings shall be declared as income in respect of the private individual receiving such assets. The amount of income and the commensurate portion of liabilities shall be determined based on the proposal for the distribution of assets or, in the absence of such, based on an agreement of the kind. The payments made in connection with such liabilities cannot be claimed as expenses in the future. These provisions shall also apply to revenues received by a private individual in connection with the rejection of the business association's application for registration, or if the registration procedure is terminated, based on the private individual's membership (shareholder or partner) in said business association.

(2) When the subscribed capital of a business association (other than ESOP organizations) is reduced by way of disinvestment, which is then distributed among its members (shareholders or partners) the fraction that is in excess of the amount spent on the acquisition of the securities in the percentage consistent with the reduction of subscribed capital, shall be declared as income in respect of the private individual receiving such assets. The amount of income shall be determined based on the records of the business association maintained in accordance with the Accounting Act. The fraction of the amount spent on the acquisition of the securities that was deducted from revenues cannot be claimed as an expense on the part of the private individual when determining his income.

(3) From the proceeds received by a private individual upon the termination of his participation (shareholder or partnership interest) in a business association (other than ESOP organizations) - not including the dissolution of the business association or the conveyance of his securities - the part that is in excess of the combined total of the expenditures made in connection with the acquisition of the securities and the liabilities assumed by the private individual from the business association's liabilities under agreement for settlement in connection with the termination of participation, shall be declared as income in respect of the private individual receiving such assets. The amount of income and the commensurate portion of liabilities shall be determined based on the records of the business association maintained in accordance with the Accounting Act. The payments made in connection with said assumed liabilities cannot be claimed as expenses in the future. These provisions shall also apply, in particular, when participation is terminated by exclusion, dismissal with or without notice, and when the private individual decides not to participate in the successor company when applicable.

(4) For the purposes of Subsections (1)-(3) the amount spent on the acquisition of securities shall be determined according to the provisions pertaining to capital gains income.

(5) Regarding the dissolution of an ESOP organization, from the revenues obtained by a private individual from the assets of the organization, the fraction that is in excess of the combined book value of securities which are due, but were not conveyed to the private individual and are shown in the analytical records of the organization separately pursuant to the government decree adopted under authorization granted in the Accounting Act, under securities or shares acquired (not including the securities which are deemed repurchased property shares) shall be declared as income in respect of the private individual receiving such assets. The amount of income and the book value of the securities shall be determined based on the records used for the annual report of the organization in the last business year. The ESOP organization shall disclose information to the tax authority on the combined book value of securities deducted from revenues concerning the income of each participant by the deadline prescribed in the Act on the Rules of Taxation for filing tax returns.

(6) The rate of tax on income withdrawn from the business account shall be 25 per cent. In respect of the income of resident private individuals, the tax paid in a foreign country shall be deducted from the tax thus calculated. In the absence of an international agreement, the inclusion of tax paid abroad shall not reduce the tax payable on dividends below 5 per cent, and any tax refund that is due to the private individual by virtue of an international agreement, reciprocity of foreign law from the income tax paid may not be claimed under taxes paid abroad.

(7) If, according to Subsections (1)-(3) and (5), the value precedent for determining the amount of income is less than the fair market value of the assets, prevailing at the time of acquisition of income, on which it is based, the fair market value shall be applied as the revenue for determining the amount of income.

(8) For the purposes of income withdrawn from the business account, the time of acquisition of income shall mean

a) the accounting date of the closing balance sheet for the last business year with regard to the dissolution of the business association in question;

b) the accounting date of the report made on the period of operation of the pre-company when the application for registration is rejected or the registration procedure is terminated;

c) the date of payment in the cases not mentioned in Paragraphs a) and b); if payment is made in several installments to the same private individual, it shall be presumed that the payer always pays the income first to the private individual.

(9) For the purposes of income withdrawn from the business account, any foreign-registered legal person or other organization that is subject to a tax similar to corporate tax in the state in which it is established, other than low tax-rate states, shall be construed a business association.

(10) If a resident business association is terminated without succession, the business association's application for registration is rejected, or the registration procedure is terminated; the business association shall assess the tax for the date on which the income was obtained and shall declare and, even if it cannot be deducted for any reason, pay it according to the provisions of the Act on the Rules of Taxation; the payer may deduct the amount of tax declared and paid on behalf of a private individual from his liability toward that private individual. In other cases, the payer shall assess the tax at the time of payment and shall declare and pay it in accordance with the provisions of the Act on the Rules of Taxation.

Chapter XIII

IN-KIND BENEFITS AND OTHER ALLOWANCES

In-Kind and Other Benefits and Allowances

Section 69.

(1) 'Benefit in kind' shall mean

a) entertainment and gifts a payer has provided to the private individual for promotional purposes;

b) taxable income provided by a payer in the form of gratuitous or preferential goods or services to several private individuals at the same time if, due to the circumstances under which they are provided, the payer - in spite of acting in good faith - is unable to determine the value provided to any one private individual concerned; this provision shall, in particular, apply to food and beverages provided in events staged by the payer to which several private individuals are invited, services provided in relation to events (e.g. travel, accommodations, programs), if not treated as entertainment; in the case that the payer acts in bad faith, a penalty shall be imposed in the amount representing 50 per cent of the value of the in-kind benefit provided on the grounds of failure to comply with the obligation of tax assessment (tax advance assessment);

c) taxable income provided to the private individual by a payer in the form of gratuitous or preferential goods or services on the basis of a provision of an act or other legal regulation enacted under authorization of an act;

d) taxable income provided by the employer - Paragraph c) notwithstanding - in the form of gratuitous or preferential goods or services to:

da) all employees (including the employees assigned to the employer in accordance with the relevant provisions of the Labor Code); or

db) the close relatives of the above and/or of a deceased employee, students of vocational training schools, students undergoing compulsory apprentice training, private individual retirees, if employed by the employer or its predecessor prior to retirement; or

dc) all of the above and/or their close relatives,

in the same manner and under the same conditions (including where goods and services are made available in a pool, each representing equal value, and may be selected from the same group of goods or services by the above-specified beneficiary private individuals under the same conditions), provided that the goods and services are in fact available to and can be obtained by all employees;

e) taxable income provided by the employer - Paragraphs c)-d) notwithstanding - as governed by internal regulations (e.g. collective agreement, organizational and operational regulations, public service regulations, etc.) that is made available to all employees (including the employees assigned to the employer in accordance with the relevant provisions of the Labor Code) to:

ea) several employees; or

eb) the close relatives of the above and/or of a deceased employee, students of vocational training schools, students undergoing compulsory apprentice training, private individual retirees, if employed by the employer or its predecessor prior to retirement; or

ec) all of the above and/or their close relatives,

in the form of gratuitous or preferential goods or services in the same manner and under the same conditions (including where goods and services are made available in pool created by a uniform concept), if the persons eligible for such benefits are not designated in the internal regulations on an individual basis, rather it defines eligibility according to jobs or positions, length of employment, age or some other common criteria that is not related in any way or form to performance of work-related duties;

f) taxable income provided to the private individual by the payer - Paragraphs c)-e) notwithstanding - in the form of meal allowance or other services in connection with official and business trips;

g) taxable income provided by the employer - Paragraphs c)-e) notwithstanding - to the private individual:

ga) in the form of rebate from the price of a vacation voucher issued by the Hungarian National Recreation Foundation to the name of the private individual;

gb) in the form of holiday services;

h) taxable income provided to the private individual by the employer - Paragraphs c)-e) notwithstanding - in the form of gratuitous or complimentary services in connection with sports activities (including a certificate for such services);

i) taxable income provided to the private individual by the employer - Paragraphs c)-e) notwithstanding - in the form of gratuitous or preferential passenger transportation services;

j) taxable income provided in the form of gratuitous or preferential goods or services

ja) as awards and prizes of games and contests published by the payer under equal conditions to all parties concerned, other than those falling within the scope of the provisions on income from winnings,

jb)

k) insurance premium paid under contract to the benefit of several private individuals, naming them as the beneficiaries, if the persons eligible for such benefits are designated according to jobs or positions, length of employment, age or some other common criteria, rather than individually;

l) taxable income provided by a payer in the form of gratuitous or preferential goods or services, whether or not this Act provides any provisions to that particular form of income, if the payer is not recognized as the employer of the private individual to whom the benefits are provided under the Act on the Eligibility for Social Security Benefits and Private Pensions and the Funding for These Services;

m) taxable income generated in connection with the use of:

ma)

mb) local and long distance telephone services (SZJ 64.20.11 and 64.20.12), mobile-telephone services (SZJ 64.20.13), voice transmission services using voice over internet protocol (under SZJ 64.20.16) (hereinafter referred to collectively as "telephone services")

for private purposes, also in due observation of what is contained in Subsection (12);

n) taxable income provided by the payer - Paragraphs d)-e) notwithstanding - in the form of gratuitous or preferential goods and/or services, which are recognized as tax-exempt under the conditions and to the extent fixed in the provisions of this Act in effect on 31 December 2009, and to which the provisions contained in Sections 70-71 do not apply;

o) benefits in kind declared taxable or tax exempt under the special provisions of this Act;

natural and cultured pearl, precious stones, semi-precious stones, precious metals, metals clad with precious metals and the goods made of these, imitation jewelry, coins - the previous provisions notwithstanding - shall not be treated as in-kind benefits, if the circumstances under which they were provided suggest any violation of the principle of proper practice.

(2) Income (stipend) the private individual has received in the form of in-kind benefits shall mean - unless otherwise provided for by law - the fair market value of the benefits provided in the form of gratuitous or preferential goods or services, or the part of this market value for which no compensation is required from the private individual (tax base).

(3) In the event the private individual alienates any goods or services received in kind, the fair market value of such goods and services prevailing at the time it was received shall be taken into consideration as the value of acquisition.

(4) The tax rate on taxable in-kind benefits shall be 54 per cent of the tax base calculated in accordance with Subsection (2).

(5) The payer shall assess the tax on in-kind benefits at the time they are provided, and shall pay it and declare it in observation of the provisions of the Act on the Rules of Taxation pertaining to payers.

(6)

(7) By way of derogation from Subsection (5), if entertainment and gifts are not otherwise recognized as tax-exempt under this Act, the payer shall not be required to assess, declare and pay:

a) regarding payers not mentioned in Paragraph b)

aa) the amount from the tax on the incomes calculated by the rate referred to in Subsection (4) on the entertainment costs that is not more than 54 per cent of 1 per cent of the payer's total revenues for the tax year or of twenty-five million forints,

ab) from the tax on the income calculated by the rate referred to in Subsection (4) in connection with promotional gifts provided during the tax year whose individual value is not more than 10,000 forints, 54 per cent of 5,000 forints per person calculated based on the work force defined in Subsection (9);

b) if the payer is a non-governmental organization, public body, ecclesiastical entity or a foundation (including public endowments) from the tax on the income calculated by the rate referred to in Subsection (4) in connection with the value of entertainment costs and promotional gifts whose individual value is not more than 10,000 forints, 54 per cent of 10 per cent of all expenses claimed for the tax year in connection with public services or the designated activities as shown in the annual report for the tax year, or maximum 54 per cent of 10 per cent of total revenues claimed for the tax year.

(8) For the purposes of Subsection (7), the value of in-kind benefits which are tax-exempt according to this Act shall not be included. The tax on the fraction that is subject to tax liability:

a) shall be assessed - in respect of payers not mentioned under Paragraph b) - subsequent to the date by which the total revenue accounted for the tax year has to be assessed, and shall be paid by the 12th of the month following the month during which the total revenue accounted for the tax year is assessed,

furthermore, the tax shall be declared in the monthly, quarterly or annual tax return as a liability for the month during which the total revenue accounted for the tax year is assessed;

b) shall be assessed in respect of private entrepreneurs and payers other than those required to file annual reports and shown under liabilities for the last month of the tax year, declared in the monthly, quarterly or annual tax return, and shall be paid by the deadline prescribed for filing the respective tax return;

c) if the financial year differs from the calendar year, the provisions of this Subsection and Subsections (7) and (9) of this Section shall apply in accordance with the provisions in force on the first day of the financial year.

(9) The work force referred to in Paragraph ab) of Subsection (7) shall be understood as the aggregate of the average statistical number of workers employed during the tax year and the members participating in the activities of the payer (in respect of private entrepreneurs including the private entrepreneur himself).

(10) For the purposes of this Section:

a) 'tax year' shall mean the business year in respect of the business entities specified under the Accounting Act, or the tax year defined in the Act on the Rules of Taxation in other instances;

b) 'total revenue accounted for the year' shall mean all revenues shown in the annual report of the payer (exclusive of consolidated reports) or if no annual report is filed the revenues shown in the books for the last day of the tax year; in respect of private entrepreneurs, the entrepreneurial income of the tax year;

c) 'provider' shall mean a payer or a legal person or organization without legal personality of foreign domicile;

d) 'entertainment' shall mean hospitality (food and beverages) provided during a business, official, trade, diplomatic or religious event in connection with the activities of the provider or during state and church festivities, and associated services (travel, accommodation, programs etc.);

e) 'promotional gift' shall mean gifts given in connection with the provider's activities within business, official, trade, diplomatic or religious circles (gratuitous or preferential goods or services, and certificates denominated exclusively for this purpose) exclusive of securities.

(11) Benefits, credit tokens and cash-substitute payment instruments shall be treated - under or in the absence of any special provisions of this Act to the contrary - as in-kind benefits if it is established from the relevant conditions under which they are provided as to the goods or services specifically or the type of goods or services for which they can be redeemed, and this type of benefit is otherwise in conformity with the provisions of this Act governing in-kind benefits. Any credit token or cash-substitute payment instrument that can be used for anything without limitation shall not be treated as in-kind benefits.

(12) The taxable income referred to in Paragraph m) of Subsection (1) shall comprise the costs of goods or services charged to the payer representing the value of use for private purposes to the extent that is not covered by the private individual, where the value of private use from the above-specified benefits shall be determined by separating turnover-based costs in an itemized breakdown and calculating the ratio of private use from turnover-based costs and the costs which are not based on turnover. Instead of an itemized breakdown, twenty per cent of the amount charged to the payer may be applied as the value of telephone services used for private purposes. If the use of telephone services for private purposes cannot be clearly identified, twenty per cent of the amount charged to the payer, or if the payer is also the provider of the service, the fair market value of use for private purposes or twenty per cent of all use shall be applied as the value of telephone services used for private purposes.

Reduced Rates Applicable to Certain in Kind Benefits and Other Non-Wage Benefits

Section 70.

(1) Tax liability on any income from certain in kind benefits and other non-wage benefits shall be satisfied according to Section 71.

(2) The income referred to in Subsection (1) shall include the following provided by an employer or business partnership (for the purposes of this provision hereinafter referred to collectively as "employer") to the persons described in Paragraphs a)-e), to employees (including the employees assigned to the employer in accordance with the relevant provisions of the Labor Code), to any member who participates in person in the business partnership's operations (for the purposes of this provision the beneficiary private individual hereinafter referred to as "employer"):

a) in respect of the employees themselves and their close relatives, of the income provided during the tax year

aa) in the form of vacation voucher/vouchers - if received from several employers, in total -

or

ab) in the form of holiday services in domestic resort facilities that the employer owns or operates, for each person up to the prevailing minimum wage;

b) the income provided in the form of hot meals, up to 18,000 forints monthly, for each month of the underlying relationship, and any fraction thereof (also subsequently);

c) the costs of training assumed (covered) provided within the regular school system up to two and a half times the amount of the prevailing minimum wage;

d) the income provided in the form of schooling assistance up to 30 per cent of the prevailing minimum wage;

e) the income provided in the form of travel passes, serving solely the employee's local commute, if purchased based upon an invoice made out to the name of the employer.

(3) The following shall also be recognized as income within the meaning of Subsection (1):

a) income provided to students of vocational schools, students undergoing compulsory apprentice training, furthermore, to private individuals drawing pension benefits - if provided by their former employer (or its successor) and to their close relatives, and also to the close relatives of deceased employees:

aa) in the form of vacation voucher/vouchers - if received from several employers, in total -

or

ab) in the form of holiday services in domestic resort facilities that the employer owns or operates, for each person up to the prevailing minimum wage;

b) the income provided in the form of hot meals, up to 18,000 forints monthly, for each month of the underlying relationship, and any fraction thereof (also subsequently) provided to students of vocational schools, students undergoing compulsory apprentice training, furthermore, to private individuals drawing pension benefits - if provided by their former employer (or its successor);

c) income provided by a trade union to active or retired members, the close relatives of these persons, the close relative of a deceased (retired) member:

ca) in the form of vacation voucher/vouchers - if received from several employers, in total -

or

cb) in the form of holiday services in domestic resort facilities, for each person during the tax year up to the prevailing minimum wage;

(4) For the purposes of Subsections (2)-(3):

a) 'resort facility' shall mean any lodging registered as a resort facility by definition of the government decree laying down the conditions for the provision of non-commercial accommodation services;

b) the concept of resort facility owned or operated by an employer shall also cover the resort facilities owned or operated by any company that is recognized as an affiliate of the employer under the Act on Corporate Tax and Dividend Tax, in the case of publicly financed bodies including the resort facilities owned or operated by the supervisory organ or by a body controlled by the Minister directing the Prime Minister's Office;

c) in connection with holiday services provided in resort facilities operated by the Magyar Tudományos Akadémia (*Hungarian Academy of Sciences*), the Magyar Tudományos Akadémia shall be treated as the employer and any member of the Magyar Tudományos Akadémia and persons holding an academic degree shall be treated as employees;

d) income provided in the form of hot meals shall mean the meals provided at a restaurant or at the workplace, or in the form of mass catering (including if provided in the form of a voucher exclusively for the use of such services);

e) the costs of training assumed (covered) shall be treated as income within the meaning of Subsection (2) c), if the training:

ea) is ordered by the employer and it is meant to provide knowledge that is necessary for a particular position (even if these costs are paid by a person other than the employer),

eb) is necessary for a private individual in the payer's employment or for a member who personally participates in the business partnership's operations to improve or augment their education, provided that the training relates to the activities of the payer or the business partnership;

f) ‘schooling assistance’ shall mean benefits provided by an employer referred to in Subsection (2) in respect of children or students attending public schools (or any equivalent institution in any EEA Member State), within sixty days before and after the first day of the school year in the form of books, school supplies and clothing (also if an invoice that is made out to the name of the employer or payer for the aforementioned articles is reimbursed under the above-specified period), or in the form of a voucher to be used solely for the purchase of the above-specified articles, provided that the private individual to whom the benefit is in fact provided is employed by the employer providing it, and is recognized under the Act on Family Allowances and Family Benefits or any similar legislation of any EEA Member State as the parent entitled to family allowance or similar benefits, or the spouse of this parent living under the same roof.

(5) In the application of Subsection (1), income shall also cover:

a) from the monthly employer’s contribution paid on the private individual’s behalf:

aa) up to 50 per cent of the prevailing minimum wage, if paid to a voluntary mutual pension fund or funds,

ab) up to 30 per cent of the prevailing minimum wage on the aggregate, if paid to a voluntary mutual health and mutual aid fund or funds,

ac) up to 50 per cent of the prevailing minimum wage, if paid to an institution for occupational retirement provision;

b) sums paid to a private pension fund by the employer on the basis of a unilateral commitment to supplement the membership fees of the private individual pursuant to the provisions of the Act on Private Pensions and Private Pension Funds;

c) from the aggregate value of benefits provided during the tax year in kind from the cooperative’s fellowship fund to a private individual member of the cooperative in accordance with the Act on Cooperatives - that is otherwise taxable - for each person up to fifty per cent of the prevailing monthly minimum wage

in the case referred to in Paragraph *a)*, if the private individual provides a statement to the effect that he did not receive any income of the type mentioned in Paragraph *a)* from any other payer, furthermore, if the employer pays the contribution on the monthly basis or for several months in advance - indicating the sums for each month -, or subsequently for not more than three months at a time, where,

1. the contribution shall be applied as income for the private individual in the amounts indicated for the month(s) in question;

2. the employer shall declare and pay the tax established in accordance with Point 1, subject to the rules and rate pertaining to the months for which any sum is indicated, as a liability for the month indicated if payment is made in advance, or for the month of transfer if payment is made subsequently.

Section 71.

(1) Any income provided to private individuals in the form of benefits under the conditions and within the limit specified in Section 70 shall be subject to 25 per cent tax payable by the payer who has provided the benefits in question (hereinafter referred to as “provider”).

(2) In connection with the tax liability referred to in Subsection (1) above, the provider shall apply the private individual’s statement concerning compliance with the conditions laid down in the regulations pertaining to specific benefits. If the benefit in question meets the conditions laid down in the relevant regulations, however, it exceeds the limit specified therein, the part that is in excess shall be treated as taxable in-kind benefit, in respect of which Paragraphs *d)* and *e)* of Subsection (1) of Section 69 shall not apply, in other cases the provisions of Section 69 shall apply in the absence of either condition.

(3) The tax shall be declared and paid by the provider, shown as a liability for the month when the benefit was provided, according to the provisions and by the deadline set out in the Act on the Rules of Taxation concerning the declaration and payment of taxes and contributions in connection with payments paid and benefits provided. Providers shall keep separate records on benefits which are subject to reduced tax rates.

(4) In the event that the tax authority establishes tax arrears in connection with the provisions of Subsection (2), it shall be paid by the provider who (which) does not have the private individual’s statement aforementioned or who otherwise did not pay the tax. If the tax debt incurred in consequence of the private individual providing false information in his statement, or if the private individual is unable to verify as to having the statement delivered, such private individual shall be liable to bear the tax debt and the related consequences by resolution of the tax authority.

Income from Interest Rate Discount

Section 72.

(1) Income from interest rate discounts means the part of interest calculated by the central bank base rate plus 5 percentage points - or the standard market rate if the payer is able to prove that the standard market rate is lower - on the amount the private individual owes to the payer that is in excess of the interest that is otherwise due to the payer (income from the interest rate discount). The income from the interest rate discount shall be calculated based on the amount the private individual owes to the payer, or if the debt is contrived from a securities lending arrangement, on the fair market value of the securities in effect on the day of contracting.

(2) The tax rate on income from interest rate discounts shall be 54 per cent of the interest rate discount. The payer shall assess this tax on a yearly basis, up to the last day of the year - or if the debt is terminated during the year, up to the day when terminated - and shall pay or declare it in accordance with the rules pertaining to the payment and declaration of income taxes withheld by the payer. The payer shall determine the amount of income from interest rate discounts earned in connection with the payment of dividend tax advance in the tax year when dividend advance is paid on the day when the annual report is adopted, otherwise the above provisions shall apply.

(3)

(4) Subsections (1)-(3) notwithstanding, the interest rate discounts received under the following legal titles or under the following conditions shall not comprise a part of taxable income:

a) receivables from the supply of goods or services (trade debtors), and any indemnity, penalty and other similar liabilities payable under contract of legal regulation in connection with these receivables;

b) unpaid subscribed capital;

c) any prepayment or any sum provided on account for a period of less than thirty days in connection with the payer's activities for the purchase of assets or services solely serving these activities;

d) any part of the dividend advance that becomes dividend upon approval of the first report following the payment date;

e) receivables generated through the assessment (accounting) of tax, tax advance, compulsory contributions and social security and family support benefits, and through the accounting (payroll processing) of income from employment arising from the usual course of accounting; this provision shall not apply to any part of the receivables of employers, payers of wages, business associations and civil associations generated by the payment of any tax advance that was not withheld, and that was not claimed after six months following the date when the tax advance was paid;

f) loan for housing purposes, if provided by an employer to an employee or by a local self-government to a private individual by way of a credit institution - and as verified by such institution - for the construction, purchase, expansion or remodeling of a residential suite, or for the repayment of a loan borrowed from a credit institution or from a former employer for either of the aforementioned purposes, which is not in excess of the reasonable housing requirement as defined in the legal regulation on subsidies for housing purposes; remodeling shall constitute an improvement of the degree of comfort as defined in the Government Decree on Subsidies for Housing Purposes;

g) payroll advances granted in an amount not to exceed five-times the prevailing monthly minimum wage in effect on the date when provided, which are to be repaid within six months; this provision shall not apply to any additional payroll advance the employer provides before the above-mentioned payroll advance is repaid;

h) family support provided on the basis of a legal regulation to newlywed regular members of the Hungarian Armed Forces and law enforcement organizations; and recruitment money and family support provided on the basis of a legal regulation to Professional and Contract Soldiers Serving in the Hungarian Army;

i) loans provided by a credit institution for the purchase of state property;

j) in the case of loans or credit provided under regulated conditions where the ceiling interest rate is defined by statutory provision (including in particular the student loans provided by the Student Loan Center);

k) consumer loans advertised publicly for reasons of business policy which are available to all persons under the same conditions;

l) credits (not including internal credit) made available to the general public and provided by a payer that is authorized to provide financial services and auxiliary financial services within the framework of business operations;

m) any claim arising in connection with a loss that falls within the scope of employees' liability for damages pursuant to the Labor Code.

n) any prepayment or any sum provided on account in connection with foreign assignment or foreign service, on condition that the account is settled with the payer within thirty days following the time of return.

Restrictions on Tax-Exempt Payments

Section 72/A.

(1) A social welfare organization performing mutual assistance and other duties or a mutual aid society (for the purposes of this Section: 'interest representation'), if it collects revenues as membership fees or contributions and upon receiving a certificate or receipt, directly or indirectly, granting eligibility for expense accounting or for the reduction of the revenues of a private individual or business partnership, shall pay 54 per cent tax on the portion of the amount paid tax-exempt to a private individual during the tax year which is in excess of the combined amount of 40 per cent of the revenues received during the tax year as membership fees, contribution for the tax year and the sums received from a fund or from another interest representation and any other revenues for the tax year.

(2) A payer shall pay 54 per cent tax on the portion of an amount (non-pecuniary value) paid (granted) tax-exempt to a private individual (individuals) during the tax year, which is in excess of the combined amount of 40 per cent of the revenues received from an interest representation or from other funds and any other revenues for the tax year.

(3) The tax described in this Section shall be paid by the payer in February of the year following the tax year in accordance with the rules of payment of the income tax deducted by such payer.

(4) For the purposes of this Section, the employees interest representation membership fee shall not be applied, if it is less than two per cent of the wages. If it is in excess of two per cent, the entire amount shall be applied.

(5) This Section shall not apply to any sum paid (provided) under exemption (non-pecuniary value) that originates - under the payer's financial responsibility - from any sub-system of the central budget - directly or indirectly in view of the source -, from church funds or from support or aid granted under international agreement.

Chapter XIV

MISCELLANEOUS INCOME

Disbursements in Small Amounts and Other Payments, Lump Sum Redemption of Annuities

Section 73.

(1) In respect of any payment of 15,000 forints or less received on the basis of a contract for self-employment activities, the private individual shall have the following options:

- a) to have the payer assess, deduct and pay the tax on the income, or
- b) to issue a written statement as to paying the tax on such income as part of his consolidated tax base.

(2) In the case described in Paragraph a) of Subsection (1) the revenue shall be regarded as income in its entirety, and the rate of tax shall be the highest tax rate indicated in the tax rate provision (percentage-base tax).

(3) In respect of Paragraph b) of Subsection (1), the private individual and the payer shall fulfill the tax payment obligation in accordance with the provisions of Part Two pertaining to the assessment of income from self-employment activities.

(4) In respect of alimony, life annuity or indemnification payments payable to a private individual due to bankruptcy, liquidation or dissolution, and any other similar receivables, and to the redemption of liability insurance payments in substitution of income in one amount, the total amount paid shall be considered income, and the rate of tax shall be 25 per cent, with the exception that the tax on this income shall be assessed, deducted and paid by the payer.

(5) The provisions of Subsections (1)-(2) may not be applied in respect of the amounts paid as consideration for private entrepreneurial and small-scale agricultural activities.

(6)

(7) Any income paid (provided) to non-resident private individuals in the form of interest, royalties or service charges shall be regarded as income in its entirety, on which the rate of tax shall be 30 per cent, if the private individual in question is a resident of a state with which the Republic of Hungary has no agreement on double taxation concerning the income and wealth tax system. If the income is received from a payer, the tax shall be assessed, deducted, paid and declared by the payer, with the exception that the tax on such payment, if provided by means other than money, shall be paid by the payer. This provision shall not apply to any interest income paid, credited by the Hungarian State, any sub-system of the central budget, the Magyar Nemzeti Vagyonkezelő private limited company (Hungarian National Asset Management Zrt.), the Magyar Fejlesztési Bank private limited company (Hungarian Development Bank Zrt.), the Magyar Export-Import Bank private limited company (Hungarian Export-Import Bank Zrt.), the Magyar Exporthitel Biztosító private limited company (Hungarian Export Credit Insurance Zrt.) or by the Magyar Nemzeti Bank, to any interest income paid, credited by credit institutions, and to default interest. In the application of this provision, service charges shall include the fees paid - in accordance with the classification of Regulation (EC) No. 1893/2006 of the European Parliament and of the Council establishing the statistical classification of economic activities NACE Revision 2 - for business and management consultancy, advertising and market research, public opinion polling, and for agency activities listed under other professional, scientific and technical activities not elsewhere classified.

Income from the Rental of Real Property

Section 74.

(1) Unless otherwise prescribed in this Act, a private individual's revenues from the rental of arable land (including land allotments as well) and revenues from the rental of other real property shall be regarded as income in its entirety, on which the rate of tax shall be 25 per cent.

(2) Income from the leasing of arable land shall be exempt from tax if the term of the lease, as stipulated in the relevant contract (agreement), is five years or more (minimum duration for tax exemption).

(3) If the above-specified contract - on the basis of which tax exemption was claimed - is terminated for any reason (not including reasons beyond the parties' control or the summary termination of the lease contract) within the minimum duration for tax exemption, the private individual shall assess the tax that was not paid under the exemption pursuant to Subsection (2), with a default penalty, for the year in which the contract was terminated, and he shall declare and pay it.

(4) The provisions of Subsection (1) may not be applied if the private individual conducts this activity as a private entrepreneur.

(5) The Act on the Rules of Taxation shall establish the regulations pertaining to tax obligations on income from the rental of arable land.

(6) In respect of the rental of other real property, the payer shall establish, deduct and pay the tax. The payer need not deduct the tax if the private individual verifies that he is renting the real property as a private entrepreneur, nor in the case where a jointly owned real estate property - other than a condominium - is leased by the appointed representative of the owners. If the income does not originate from the payer, or for any other reason whatsoever the payer did not deduct the tax, the private individual shall establish the tax and pay it quarterly pursuant to the provisions of the Act on the Rules of Taxation pertaining to tax advances.

(7) In respect of the rental of real property not elsewhere classified, in connection with all such revenues for the tax year, the private individual may opt to apply - in the stead of Subsection (1) - the provisions pertaining to income from self-employment activities to his income from lease charges (including the rules applicable to tax assessment). If the income is received from a payer, and the private individual files a formal statement concerning his choice, the payer - instead of applying the provisions of this Section - shall proceed according to the rules on the withholding of tax advances in connection with income from self-employment activities. In the absence of such statement, the tax deducted by the payer, or in other cases the tax paid by the private individual according to this Section shall be treated as a tax advance, if the private individual applies his selection in his tax return.

(8) If the Republic of Hungary has no agreement on double taxation concerning the income and wealth tax system with the state where the real property is located, the income from the rental or leasing of the property - Subsection (7) notwithstanding - shall be deemed self-employment income on the part of the private individual.

(9) The tax paid on a real estate property according to the Wealth Tax Act by the prescribed deadline may be deducted from the income from the rental of the same real estate property.

Income from the Rental of Real Property to Local Self-Governments

Section 74/A.

(1) 'Income from the rental of residential suites to the local self-government' shall mean any income from the rental of a residential suite that has a valid occupancy permit and:

a) the lessee is the body responsible for the finances of the local self-government of the municipality where the residential suite is located (local government body);

b) the contract underlying the rental of the residential suite is entered into for a fixed duration of 36 months or more (mandatory duration), including any period that immediately follows the mandatory duration if the contract is renewed;

c) the local self-government uses the residential suite for providing housing to private individual(s);

d) the contract underlying the rental of the residential suite contains the number of the local self-government decree laying down the conditions for selecting sub-lessees on the basis of social considerations (mandatory objective).

(2) The proceeds from the rental of a residential suite to a local self-government shall be regarded as income, on which the rate of tax is zero per cent.

(3) In connection with the rental of a residential suite to a local self-government:

a) the income from the rental of this residential suite shall not be shown under self-employment income or entrepreneurial income, and the expenses related to the rental of this residential suite may not be claimed or accounted;

b) if the contract underlying the rental of a residential suite is terminated inside the mandatory duration for reasons within the lessor's control, the private individual shall be subject to tax liability in the amount specified in Subsection (4) in the tax return filed for the year when the contract was terminated;

c) in the case referred to in Paragraph b), the local government body shall notify the tax authority concerning the termination of the contract, with an indication of the lessor's tax identification number by 31 January of the following tax year.

(4) The tax payment obligation referred to in Paragraph b) of Subsection (3) shall be determined as follows:

a) The private individual shall calculate the tax amount payable on the income specified in Subsection (2) separately for each year in accordance with Subsection (1) of Section 74 of this Act in effect at the time of payment, and shall calculate the amount of late charges on the tax payable for the tax years in question in accordance with the Act on the Rules of Taxation effective as of the 21st day of May following the year to which it pertains.

b) The tax and the late charges shall be added up and multiplied by the two-decimal quotient obtained by dividing the number of months remaining from the duration of the mandatory contract by 36.

(5) Any local self-government that fails to utilize a rented residential suite or uses it for purposes other than the mandatory objective within the term of the contract:

a) shall be liable to pay 33 per cent tax, if the rental contract was concluded with a private individual; or

b) shall be liable to pay 8 per cent tax, if the rental contract was concluded with an entity that is considered a subject of corporate tax under the Act on Corporate Tax and Dividend Tax.

The tax referred to in Paragraphs a)-b) shall be due and payable on each month's rent in accordance with the provisions of the Act on the Rules of Taxation pertaining to payers, when the residential suite was vacant. These provisions shall not apply where the duration of vacancy remains less than 30 days from the beginning of the tax year.

Income of Condominium Associations and Resort Condominiums

Section 75.

(1) The income earned by the owners' association of condominium buildings and resort condominiums (hereinafter referred to collectively as "condominium") under one name, regardless of whether or not the owners are private individuals, the condominium shall be subject to tax liability according to Subsections (2)-(8).

(2) From the revenues of the condominium referred to in Chapters XI-XIV of this Act - apart from the provisions of this Section - (exclusive of the revenue from the rental of common elements of the condominium) the income and the tax shall be determined - in due observation of the provisions of Subsections (3) and (4) - and paid as if it had been obtained by a private individual with the understanding that the condominium shall be construed as the private individual. The income distributed among the owners from the remaining portion shall not be subject to any further tax liability.

(3) In the event of transfer of any part of the common elements of the condominium building, 25 per cent of the revenues shall be applied as income, however, the provisions of Subsection (4) of Section 62 shall not apply.

(4) The provisions of Subsection (2) shall not be applied as regards the income distributed among the private owners as consistent with their respective percentage of ownership from the transfer of any part of common elements, if such owners satisfy their tax liability individually as resolved by the general meeting of the condominium association.

(5) From all of the other revenue obtained by the condominium during the tax year that is not mentioned in Subsection (2) (including the revenue from the rental of any common element of the condominium), the payments received from the owners for covering common operating expenses or for renovation reserve, and the consideration received for services mediated by the condominium during the tax year shall be deducted, along with the sums that are not to be included in the income pursuant to this Act (e.g. any subsidies received on the basis of legal regulation or loans). The remaining portion of the revenue shall be regarded as income in its entirety, and the tax on it shall be 25 per cent.

(6) The tax on any taxable sums paid to a condominium shall be assessed and paid by the payer, concerning which the payer is to issue a certificate to the condominium association and shall file a declaration to the payer according to the rules for the obligation to file a tax return concerning payments paid and benefits provided to private individuals which are taxable in accordance with the provisions of the Act on the Rules of Taxation. As regards the taxable receipts from sources other than payers, the condominium association shall assess the tax and pay it quarterly in compliance with the provisions of the Act on the Rules of Taxation pertaining to tax advances, and shall declare it in accordance with Subsection (17) of Section 49 of this Act as pertaining to private individuals.

(7) The condominium shall meet the tax obligations specified in this Section in accordance with the provisions pertaining to private individuals with the exception that only the revenue on which taxes are to be levied shall be declared. The condominium association shall be construed as a payer regarding the payments it makes, and it shall be required to satisfy its tax liabilities in this respect as well.

(8) When a condominium association distributes any of the income, remaining after taxes have been deducted and paid, as prescribed in Subsection (6), or a part of such income among the owners in a manner consistent with their percentage of ownership, all of this revenue shall be regarded as income for the private individual and subject to 35 per cent tax.

Income from Winnings

Section 76.

(1) In connection with any winnings exempt from the provisions on interest income, the total amount of any proceeds received as winnings from lottery games subject to authorization as defined in the Act on Gambling Operations, as well as from promotional contests of chance and betting transactions (hereinafter referred to as "taxable winnings") shall be considered income in its entirety.

(2) In respect of cash winnings the amount of tax shall be 25 per cent which shall be deducted and paid by the payer in one sum from the total amount of winnings to be divided among private individuals.

(3) In respect of winnings paid not in cash but in some other valuable consideration, the payer shall pay 33 per cent as tax based on the fair market value of such winnings calculated without value added tax.

(4) Winnings from drawings, from any games of chance, from coin-activated gaming devices and casinos and winnings from bets placed with a bookmaker or from horse race betting and bingo games, as well as winnings from card games organized in card rooms, which are not subject to authorization in accordance with Section 16 of the Act on Gambling Operations shall not be considered income.

(5)

Income from Privatization Lease

Section 77.

(1) The total amount of revenues from an ownership share obtained on the basis of a privatization lease contract defined in the Act on the Sale of State-Owned Entrepreneurial Assets shall be considered income, on which the rate of tax shall be 25 per cent.

(2) The detailed rules of the tax obligation described in this Section are contained in Schedule No. 9.

Chapter XV

***VALUABLE CONSIDERATION OBTAINED IN THE FORM OF
SECURITIES OR BY WAY OF RIGHTS IN SECURITIES***

Valuable Consideration Obtained in the Form of Securities

Section 77/A.

(1) In connection with any valuable consideration obtained by a private individual in the form of securities, income shall mean the fair market value of the security prevailing at the time of acquisition of the security, less the verified cost (value) of the security and any incremental costs associated with it. The type of tax liability attached to this income shall be determined on the basis of the relationship between the parties concerned (the private individual and the person from whom the security originates, and the said persons and a third party) and the circumstances under which the income was obtained, and the ensuing tax liabilities prescribed upon the payer or the private individual in question (including, in particular, the assessment, payment and declaration of income, tax amount, tax advance, and the related disclosures) shall be satisfied accordingly. The provisions pertaining to in-kind contributions shall not apply to any valuable consideration obtained in the form of securities.

(2) The valuable consideration obtained by a private individual in the form of securities shall not be treated as income if the private individual

a) obtained the security in question through exercising a right that was obtained in a transaction offering equal conditions to all parties concerned;

b) obtained the security:

ba) by way of conversion (exchange) - other than what is described in Subsection (5) - at its face value or less,

bb) through an increase in the subscribed capital from the equity capital of a business association of which he is a member, shareholder or partner;

c) obtained the security in the successor of the business association in which he was a member, shareholder or partner;

d) obtained the security through an increase in the subscribed share capital from the equity capital as part of an employee stock ownership plan;

e) obtained a registered security by way of the conversion of a convertible bond;

f) uses his compensation notes to purchase assets, stock and/or shares in the process of privatizing state property; at such time, when determining the purchase price of the assets, the value of the compensation notes plus interest is to be taken into consideration with respect to the private individual who was the original holder of such notes or, if the compensation notes were part of his estate, his heir, and the purchase price of the compensation notes is to be taken into consideration with respect to other private individuals.

g) obtained the security or business share upon the distribution of common property among married couples, by means other than a contract of sale; the acquisition value of the security or business share obtained in this fashion shall comprise the value that could have been applied by the spouse as the acquisition value (in the case of business shares, the nominal value of the business shares obtained relative to the nominal value of the business shares prior to distribution).

(3) For the purposes of Subsection (2), any foreign-registered legal person or other organization that is subject to a tax similar to corporate tax in the state in which it is established, other than low tax-rate states, shall be construed a business association.

(4) The resident business association (or its successor where applicable) shall, by 31 January of the following tax year, supply information to the tax authority concerning all of the securities it has issued at higher face value in connection with the increase of its subscribed share capital from the equity capital, its transformation or the conversion of its own issued convertible bonds, and it shall do so separately for each private individual involved in the transaction; disclosure shall be made on the transfer, retirement or exchange of those securities of higher face value it has issued in this fashion. The private individual receiving such securities of increased face value shall keep records on all such securities and shall determine the value of these securities as consistent with and in consideration of the purchase price of the original securities and any capital contribution that may be involved.

(5) In connection with the business shares obtained under the title of employee shares before 1 July 2006 (hereinafter referred to as "employee shares"), and where the retirement, conversion or redemption of employee stocks or shares takes place in consequence of the company's transformation or termination without succession or in any other way, any profit made by a private individual in connection with the above-specified transactions (meaning the proceeds realized by the transaction, less the purchase price of the security and any incremental costs associated with it) shall be treated as employment income or, if it pertains to the heir of the employee, other income. As for the employee stocks or shares obtained by way of preferential arrangements under the Act on the Sale of State-Owned Entrepreneurial Assets, the aforementioned margin shall be treated as capital gains income for the employee in question, or for his heir if the securities form part of an estate. The aforementioned margin shall not be treated as income if the private individual receives new issues of employee stocks or shares - which carry the same rights - in the successor business association in exchange for those that were retired, in which case the acquisition value of these new securities shall be determined as consistent with and in consideration of the acquisition value of the original securities and any capital contribution that may be involved.

(6) For the purposes of Subsections (1) and (5), the acquisition value of securities and the incidental costs associated with them shall be determined according to the provisions pertaining to capital gains income, with the exception that if the employee shares or stocks form part of an estate, the acquisition cost for the heir of the original holder of the securities shall be the same as the acquisition cost for the original holder of the securities. With respect to the retirement or conversion of employee shares or stocks as concerning the original holder or, if they were part of an estate, his heir, the acquisition cost of the security shall also constitute 50 per cent of the nominal value of the security to the extent that it was funded through an increase of the subscribed capital from the equity capital, with the exception that this provision shall not apply if the said portion

a) was treated as income at the time the securities were acquired,

b) it was provided to the private individual by way of preferential arrangement due to employees under the Act on the Sale of State-Owned Entrepreneurial Assets,

and therefore it comprises part of the acquisition value according to this Act.

(7) In the case of a preferential exchange of shares concerning a private individual who is a member or shareholder of the acquired company, the income realized by the private individual through the transaction shall be determined according to the provisions on capital gains income. Furthermore,

a) the part of the income realized by the transaction to the extent not exceeding the amount of cash received in the transaction shall be treated as capital gains income; if this income is received in a foreign currency, it shall be converted into forints in accordance with the regulations governing the conversion of revenues;

b) the part of the income realized by the transaction, other than what is defined in Paragraph a), shall be tax exempt at the time of the transaction or, if so instructed by the private individual, may be treated as capital gains income.

(8) The private individual shall notify the payer concerning the instruction referred to in Paragraph b) of Subsection (7) before the date of transfer and shall also notify the tax authority accordingly. If, as instructed by the private individual, the amount mentioned in Paragraph b) of Subsection (7) is tax exempt,

a) the payer shall, by 31 January of the following tax year, supply information to the tax authority concerning all securities provided to private individuals by a preferential exchange of shares; disclosure shall be made separately for each private individual involved in the transaction;

b) the private individual receiving such securities by a preferential exchange of shares shall keep records of all such securities; in this case the acquisition value of these securities shall comprise the acquisition value of the securities transferred under a preferential exchange of shares and of the amount mentioned in Paragraph a) of Subsection (7).

(9) For the purposes of the provisions pertaining to valuable consideration obtained in the form of securities:

a) 'preferential exchange of shares' shall mean an operation whereby a company (the acquiring company) acquires an interest in the issued capital of another company (the acquired company) in exchange for issuing to the member (members) or shareholder (shareholders) of the latter company, in exchange for their securities, securities representing the issued capital of the former company and, if applicable, making a cash payment not exceeding 10 per cent of the nominal value or, in the absence of a nominal value, of the accounting par value of the securities issued in exchange, provided that the acquiring company obtains a majority of the voting rights, or shall increase it if already held a majority of the voting rights before the transaction took place in the acquired company;

b) 'corporation' means a business association, professional association and, effective as of the operative date of the Act promulgating the treaty on the accession of the Republic of Hungary to the European Union, any corporation domiciled in a Member State according to the tax laws of that state

ba) that does not have a domicile in a non-member state under the provisions of a valid international agreement on income tax and wealth tax to which the said non-member state is a party, and

bb) it operates in a form governed in the Council Directive on the common system of taxation applicable to mergers, divisions, transfers of assets and exchanges of shares concerning companies of different Member States, and is taxable under these directives without the possibility of having an option or being exempt.

Valuable Consideration Obtained by Way of Rights in Securities

Section 77/B.

(1) As regards the valuable consideration obtained through the transfer (assignment), termination, endorsement of the purchase, subscription, sale or other similar right in securities (exclusive of rights attached to other securities) or through the waiver of such right, from the proceeds received by the private individual the margin above the costs charged, as verified, to the private individual in connection with the acquisition of the right and the incremental costs associated with the transaction (in connection with a gratuitous or complimentary right, including any income that is deemed taxable at the time the right is acquired). The amount of income shall be assessed as on the day when received.

(2) In connection with any contract for purchase option (call option) or for purchase obligation (put option) pertaining to securities, income for the obligor private individual shall comprise the sum, from the sum calculated according to Subsection (1):

a) if the contract is terminated upon financial settlement, that is in excess of the costs (value) charged, as verified, to the private individual who provides the option in question upon the said settlement; or

b) if the contract is discharged upon the actual delivery of the security:

1. in connection with purchase options, that is in excess of the purchase price (value) of the security in question, as verified, not to exceed the fair market value of the security at the time of delivery that is in excess of the price contracted,

2. in connection with purchase obligations, the part of the price of the security as contracted that is in excess of the fair market value of the security at the time of delivery,

with the exception that the item referred to in Point 2 may not be applied to comprise a part of the purchase price of the security.

(3) The time of acquisition of the income shall mean:

a) in the case mentioned in Paragraph *a)* of Subsection (2), the day of settlement (value day);

b) in the case mentioned in Paragraph *b)* of Subsection (2), the day when the right is exercised;

c) if the holder failed to exercise his right, the deadline for exercising the right, or the last day of the time limit prescribed for exercising the right;

not to exceed the last day of the fifth year following the year when the call or put option was issued.

(4) In connection with securities obtained by way of a purchase, subscription or other similar right in securities, the private individual obtaining them shall be subject to the provisions pertaining to valuable considerations obtained in the form of securities. In this case the date of the acquisition of income shall be determined as the date of the acquisition of the right of control over the security or the date when the private individual (or any other person acting on his behalf) takes possession of the security in question (including, in particular, when the security is credited to the securities account), whichever occurs earlier.

(5) As regards the valuable consideration obtained through the exercise of a sale option or other similar right in securities, that part of the income defined on the basis of the obtained valuable consideration that is greater than the fair market value of the security that is effective on the day of transfer (income component for the exercise of the right in question), less the costs charged, as verified, to the private individual (in connection with a gratuitous or complimentary right, including any income that is deemed taxable at the time the right is acquired) shall be treated as income, with the exception that:

a) the amount of income from the remaining part of the proceeds received in connection with the transfer of the security shall be determined in compliance with the provisions on capital gains, with due consideration of what is contained in Paragraph *b)*;

b) where Paragraph *a)* applies, the part of the costs charged to the private individual in connection with the acquisition of the right may be deducted from the proceeds mentioned therein under the title of transfer costs, that is in excess of the proceeds from the exercise of the option. The amount of income shall be assessed as on the day of transfer of the security in question.

(6) The definition of the income established according to Subsections (1)-(4), and Subsection (5), other than what is mentioned in Paragraph *a)*, shall be determined in consideration of the contract between the parties affected (the private individual and the person to whom the right was transferred, and the said persons and a third party) and on the circumstances under which the income was obtained, and the tax liabilities prescribed upon the payer and the private individual in question (including, in particular, the assessment, payment and declaration of income, tax amount, tax advance, and the related disclosures) shall be satisfied accordingly. The provisions pertaining to in-kind contributions shall not apply to valuable considerations obtained in a form other than money.

(7) The income specified in this Section, and the tax (tax advance) on such income shall be assessed by the payer, and shall be declared and paid in accordance with the Act on the Rules of Taxation, furthermore, the payer shall supply a certificate to the private individual affected by 31 January of the year following the tax year, and shall disclose such information to the state tax authority. If there is no payer involved, the amount of income and tax shall be assessed by the private individual affected based on his own records. These certificates and records, and the data disclosed shall - in due consideration of the provisions of this Act pertaining to securities, rights in securities and incremental costs - indicate the income received, the ancillary costs verified, and the costs incurred in connection with the acquisition of rights in securities or the securities themselves.

(8) The private individual affected shall assess the profit realized on such transactions and the tax payable on such income relying on the documents and certificates made out by the payer or on his own records, and shall declare them in his tax return filed for the tax year, and shall pay the tax by the deadline prescribed for filing tax returns taking into consideration the tax (tax advance) deducted by the payer.

(9) The payer shall, by 31 January of the following year, supply the state tax authority with information concerning any purchase, subscription, sale or other similar right in securities he has established, as well as the waiver, exercise and termination of such right (in the latter case the information shall concern the original right-holder as well as the person exercising, terminating or waiving the right); such disclosure shall be made separately for each private individual involved in the transaction.

(10) Where the right was established, obtained or exercised in a transaction offering equal conditions to all parties concerned:

a) by way of derogation from what is contained in Subsection (6), the tax rate on the income specified in Subsections (1)-(3) shall be 25 per cent;

b) by way of derogation from what is contained in Subsection (4), the valuable consideration mentioned therein shall not be taken into consideration;

c) by way of derogation from what is contained in Subsection (5), the income from the transfer of securities, without the proceeds from the exercise of the option, shall be determined in compliance with the provisions on capital gains.

(11) The costs incurred in connection with the acquisition of the right or securities shall be determined in compliance with the provisions on capital gains.

(12)

(13) Instead of the provisions of this Section, the provisions on income from controlled capital market transactions shall apply to income from profits made by means of controlled capital market transactions.

Income Obtained under an Approved Employee Securities Benefit Program

Section 77/C.

(1) The valuable consideration obtained by a private individual in the form of a security shall not be treated as income if

a) it was obtained by the private individual under an approved program and under the conditions set forth in the approved program, and

b) the program organizer or the issuer has, instead of physically handing them over, deposited the securities on behalf of the private individual with an investment service provider designated in the decree on the registry of approved programs or - if the issuer is a foreign-registered legal person or other organization - with an investment service provider operating in any EEA Member State or in a Member State of the Organization for Economic Cooperation and Development (OECD) under the laws of that country (hereinafter referred to as “non-resident investment service provider”) (in connection with dematerialized securities, including the placement of such securities provided to the private individual within the framework of the program into a securities account reserved for these types of securities only), or

c) if the private individual has obtained a purchase, subscription or other similar right in securities under the program, and the first day of the private individual's entitlement to exercise such right arrives after two years.

(2) The basis of securities deposits shall be a framework agreement between the program organizer and the deposit custodian and individual contracts by and between the program organizer, the deposit custodian and the private individual. The parties shall conclude individual contracts for each of the securities received on different days if the securities are not deposited on the same day. The framework agreement shall contain the registration number of the approved program, the corporate name, tax number and mailing address of the program organizer and the deposit custodian. The individual contracts shall contain the same information plus the name, tax identification number and mailing address of the private individual named as the beneficiary as well as all information necessary to identify the securities and the initiation date of the compulsory deposit period. Each of the parties shall be required to notify the other parties within 15 days of any changes in their particulars (including the dissolution of the program organizer or the deposit by succession). The program organizer shall only be entitled to conduct transactions concerning the deposited securities jointly with the private individual concerned, while the private individual shall have the right to do so independently unless the framework agreement contains provisions to the contrary; such provisions, however, must apply to all participating private individuals equally.

(3) Upon termination of a private individual's individual deposit custody account, the program organizer shall disclose information to the tax authority concerning all securities involved along with the registration number of the approved program, the corporate name and tax number of the program organizer, and the name and tax identification number of the private individual on whose behalf the securities were held. Simultaneously, the deposit custodian shall convey to the tax authority the corporate name and tax number of the new deposit custodian if the securities are transferred into the custody of another investment service provider governed by the Act on the Capital Market on behalf of the private individual under whose name such securities are registered.

(4) When transferring a securities deposit account, the transferor shall communicate to the transferee the registration number of the approved program, the corporate name, tax number and mailing address of the program organizer and of his own, and the name, tax identification number and mailing address of the beneficiary private individual and the initiation date of the compulsory deposit period if the individual deposit account of a private individual is transferred to another investment service provider governed by the Act on the Capital Market inside the compulsory deposit period.

(5) The new deposit custodian shall disclose information to the tax authority within 15 days of taking over the custody account concerning all securities transferred along with the registration number of the approved program, the corporate name and tax number of the program organizer, and the name and tax identification number of the beneficiary private individual, if the securities were received as described in Subsection (4). Simultaneously, the new deposit custodian shall convey to the tax authority the corporate name and tax number of the previous deposit custodian. The new deposit custodian shall be subject to the provisions on deposit custodians in other matters.

(6) The deposit custodian shall notify the program organizer forthwith if a securities custody account he manages on behalf of a private individual is terminated within the compulsory deposit period on any grounds (other than by the instruction of the program organizer).

(7) The provisions set out in Subsections (2)-(6) shall not apply to non-resident investment service providers, in which case - upon termination of a private individual's individual deposit custody account - the program organizer shall, within 15 days of closing the account, disclose to the tax authority information concerning all of the securities involved along with the name and tax identification number of the private individual on whose behalf the securities were held. If the non-resident investment service provider has transferred the securities deposit custody account of a private individual to another non-resident investment service provider or to a resident investment service provider, the program organizer shall communicate to the tax authority the corporate name and tax number (and the registered office if the tax number is unknown) of such new deposit custodian. If the account is transferred to a resident investment service provider, the provisions contained in Subsections (2)-(6) shall be applied. The program organizer shall take all measures necessary to satisfy the data disclosure and notification requirements prescribed in this Subsection.

(8) The following shall constitute employment income obtained by a private individual (or income from activities other than self-employment that is not considered employment income on the initiation date of the compulsory deposit period if the private individual is an executive officer of the organizer of the program), or other income from his heir in the event of the private individual's death:

a) if the employment relationship between the private individual and the program organizer or its affiliated company is terminated, that part of the fair market value of the securities established at the time the employment relationship is terminated, which is greater than the total of the amount spent to acquire the securities and any incidental costs relating to the securities, unless the program organizer or its affiliated company (or its successor in title) and the private individual have, at the same time, entered into a new employment relationship or an executive officer relationship or the existing executive officer relationship is retained, and unless their legal relationship is terminated due the private individual's death or retirement or for reason of collective redundancy,

b) if the executive officer relationship between the private individual and the program organizer or its affiliated company is terminated, that part of the fair market value of the securities established at the time the employment relationship is terminated, which is greater than the total of the amount spent to acquire the securities and any incidental costs relating to the securities, unless the program organizer or its affiliated company (or its successor in title) and the private individual have, at the same time, entered into a new employment relationship or an executive officer relationship or the existing employment relationship is retained, and unless their legal relationship is terminated due the private individual's death,

c) that part of the revenue obtained by the private individual in return for retiring, converting or exchanging securities which is greater than the total of the amount spent to acquire the securities and any incidental costs relating to the securities,

d) in the case of securities lending arrangements, that part of the fair market value of the securities established at the time of transfer which is greater than the total of the amount spent to acquire the securities and any incidental costs relating to the securities,

e) that part of the revenue obtained by the private individual in return for transferring securities for a valuable consideration not mentioned in Paragraphs c) and d) - but (unless the private individual conveys the securities to the program organizer) not less than the fair market value of the securities established at the time of transfer - which is greater than the total of the amount spent to acquire the securities and any incidental costs relating to the securities,

f) with respect to the gratuitous transfer of securities, that part of the fair market value of the securities established at the time of transfer, which is greater than the total of the amount spent to acquire the securities and any incidental costs relating to the securities, unless the private individual conveys the securities to the program organizer,

g) that part of the revenue acquired by the private individual, as a consequence of the dissolution of the issuer, from the assets of the issuer (or its successor in title) in connection with his membership (shareholder) relationship, which is greater than the total of the amount spent to acquire the securities and any obligations of the issuer devolving on the private individual,

h) that part of the revenue acquired by the private individual, as a consequence of a reduction in the subscribed capital of the securities' issuer owing to disinvestment, from the issuer's assets in connection with his membership (shareholder) relationship, which is greater than the part of the amount spent to acquire the securities that is proportional to the reduction in subscribed capital,

i) that part of the fair market value of securities established at the time of custody of the private individual's securities account - or the private individual's heir's in the event of his death - is terminated, which is greater than the total of the amount spent to acquire the securities and any incidental costs relating to the securities if custody is terminated for reasons other than those described in Paragraphs c)-h), unless the deposit custodian, on the instruction of the account holder, transfers the securities to an investment service provider or - if the issuer is a non-resident legal person or other organization and the deposit custodian is a non-resident investment service provider - to a non-resident investment service provider in order to make individual deposits to the benefit of the private individual,

if the termination of the relationship, transfer, dissolution of the issuer, reduction of its subscribed capital, or termination of custodianship for any other reason takes place within the compulsory deposit period.

(9) The private individual shall convey to the program organizer all of the available information required to determine the income specified in Subsection (8):

a) before the termination of the relationship in the cases referred to in Paragraphs a) and b) of Subsection (8),

b) before the retirement, conversion or exchange of the security in the case referred to in Paragraph c) of Subsection (8) if the security is issued by the program organizer or, in other cases, within 15 days of the retirement, conversion or exchange of the security,

c) before the transfer in the cases referred to in Paragraphs d)-f) of Subsection (8) (or within 15 days of receipt at the latest) if the security is transferred to the program organizer or, in other cases, within 15 days of receipt,

d) before the dissolution of the issuer in the case referred to in Paragraph g) of Subsection (8) if the security is issued by the program organizer or, in other cases, within 15 days of the date of dissolution,

e) before the decrease of the subscribed capital in the case referred to in Paragraph h) of Subsection (8) if the security is issued by the program organizer or, in other cases, within 15 days of the date on which the subscribed capital is reduced,

f) within 15 days of closing the custody account in the case referred to in Paragraph i) of Subsection (8),
the tax authority shall impose upon the private individual at fault all of the legal consequences applicable for any failure or noncompliance with the above-specified disclosure obligations.

(10) The program organizer shall perform the tax obligations in connection with the income of private individuals obtained in accordance with Subsections (8) and (9) in observation of the provisions pertaining to employers if under employment relationship with the private individual on the day following the day

when the income was obtained, or in observation of the provisions pertaining to payers (exclusive of payers of wages) in other cases.

(11) The date of acquisition of the income defined under Subsection (8) is

a) the date on which the relationship is terminated in the cases referred to in Paragraphs a) and b) of Subsection (8),

b) the date of retirement, conversion or exchange of the security in the case referred to in Paragraph c) of Subsection (8) if the security is issued by the program organizer or, in other cases, the last day of the prescribed deadline for disclosure,

c) the date of receipt in the cases referred to in Paragraphs d) and e) of Subsection (8) (or the 15th day following receipt of the security at the latest) if the security is transferred to the program organizer, or, in other cases, the last day of the prescribed deadline for disclosure,

d) the last day of the prescribed deadline for disclosure in the cases referred to in Paragraphs f) and i) of Subsection (8),

e) the date of the issuer's dissolution without succession in the case referred to in Paragraph g) of Subsection (8) if the security is issued by the program organizer or, in other cases, the last day of the prescribed deadline for disclosure,

f) the date on which the subscribed capital is reduced in the case referred to in Paragraph h) of Subsection (8) if the security is issued by the program organizer or, in other cases, the last day of the prescribed deadline for disclosure.

(12) By way of derogation from the provisions of Subsections (8) and (11), a private individual shall not obtain income if he receives a security for the purpose of overstamping or exchanging it, in order to transfer it within the scope of a preferential share exchange, or because the issuer has been transformed, provided that

a) the transaction results only in the acquisition of securities,

b) the private individual notifies the deposit custodian at the time of receipt or, if the deposit custodian is a non-resident investment service provider, the program organizer before receipt concerning the purpose (reason) of the transaction and declares that he has acquired only securities through the transaction, and

c) the issuer (or his proxy) deposits - at the instruction of the private individual - the securities obtained through the transaction in the private individual's individual account at the original deposit custodian.

The deposit custodian (exclusive of non-resident deposit custodians) shall forthwith notify the program organizer if the new securities (overstamped securities) are not deposited within the prescribed deadline.

(13) The initiation date of the compulsory deposit period for the securities deposited as specified under Paragraph c) of Subsection (12) shall be the same as that of the original (received) securities, and their acquisition value shall be determined on the basis of and in accordance with the cost of the original security and of any capital contribution that may be involved. The new securities shall otherwise be subject to the provisions that apply to the original securities.

(14) If the private individual is unable to meet the deadline for reasons beyond his control, the tax authority may extend the deadlines prescribed under Subsections (9) and (12) at the request of either party to the transaction if the request is submitted within the deadline. The same deadline may be extended a maximum of two times with a total period not to exceed 120 days. The tax authority shall process such requests posthaste, and its decision in the matter cannot be appealed. If the tax authority does not reject the application for extension within 15 days of the date on which it is submitted, it shall be subject to the legal consequences applicable as if it had been approved. The time between the submission of the application and the operative date of the ensuing decision (or the operative date of the court ruling if the decision is reviewed by the court) and the duration of the extension shall not be included in the time limit.

(15) After the lapse of the compulsory deposit period and in connection with securities obtained under Paragraph c) of Subsection (1), if the securities obtained under an approved program

a)

b) are transferred without consideration (except if transferred to the issuer), the provisions on capital gains income shall apply with the exception that the fair market value of the security established at the time of transfer shall be considered as proceeds from the transaction;

c) converted or exchanged, the tax liability on the ensuing proceeds shall be subject to the provisions on capital gains income.

(16) The tax authority shall penalize the program organizer and the deposit custodian for any violation of the data disclosure and notification obligations set forth in this Section with a fine up to 500,000 forints.

(17) The private individual and the investment service provider shall be required to maintain separate records on the securities obtained or held in deposit, under an approved program. The private individual shall be subject to this obligation even after the lapse of the compulsory deposit period.

(18) If the combined fair market value of all securities obtained by a private individual under an approved program,

a) if deposited in the tax year, as effective on the date when deposited, and/or

b) if acquired by exercising a purchase, subscription or other similar right referred to in Paragraph c) of Subsection (1), as effective on the date when the right was established,

or the combined fair market value, less the acquisition cost if the private individual has obtained the security for consideration, is in excess of 1 million forints, the provisions of Subsections (1)-(17) shall apply only to the securities whose aggregate (reduced) fair market value - added up in the sequence of depositing or exercising of right - does not exceed the above-mentioned amount limit. As to other securities obtained by the private individual under an approved program, the provisions of Section 77/A shall apply. Any private individual who obtains securities during the tax year through several approved programs shall forthwith notify the organizers of all programs affected when the said amount limit is reached.

(19) The minister in charge of taxation shall grant approved program status to any program contained in the application of a business association (or a foreign-registered company that applies to have the program registered by way of its Hungarian branch or commercial representation) if it meets all of the following criteria:

a) only securities issued by the applicant business association or by its affiliated company may be offered in the program;

b) the program, which must be published in writing, shall contain the program organizer's absolute and irrevocable commitment to abide by what is promised in the program; registration shall not be affected if the program organizer's absolute and irrevocable commitment is made contingent upon registration in the register of approved programs;

c) the program may offer securities only to the employees and executive officers of the business association and its affiliated company indicated in the application;

d) employee participation in the program must cover at least 10 per cent of the average number of employees of the business association - if the application covers the employees and executive officers of the business association's affiliated companies as well, including at least the business association plus all affiliated companies indicated in the application - registered in the year preceding the year in which the application is submitted, and at least 25 per cent of the number of private individuals proposed to participate must be executive officers;

e) the executive officers participating in the program are permitted to obtain not more than 50 per cent of all of the securities made available in the program in terms of their nominal value;

f) close relatives of the appointed auditor of the applicant business association and its affiliated company indicated in the application, and the issuer (and those of the executive officers of the auditing firm and its member or employee assigned to conduct the auditing) and close relatives of supervisory board members shall not be permitted to obtain any securities under the program;

g) neither the chief accounting officer of the applicant business association and its affiliated company indicated in the application, and the issuer nor his close relatives shall be permitted to obtain any securities under the program;

h) the applicant business association and the issuer (or their successor) published annual reports, containing the auditor's endorsement, for the last three financial years prior to the submission of the application in compliance with the legal requirements prescribed by the law of the state in which it is established;

i) the applicant business association and its affiliated company indicated in the application, and the issuer (or their successor) were not engaged in bankruptcy or liquidation proceedings (or equivalent proceedings under their own law) in the three calendar years prior to the date on which the application was submitted.

(20) The minister in charge of taxation shall reject an application for registration if

a) the program presented in the application fails to meet all of the requirements prescribed in this Act;

b) the application fails to satisfy all of the criteria prescribed in this Act and in the ministerial decree enacted under its authorization, or if the information disclosed in the application is insufficient for making an adequate evaluation and the applicant fails to correct these discrepancies despite being requested to do so;

c) the applicant business association and its affiliated company indicated in the application, or the issuer is engaged in bankruptcy or liquidation proceedings (or equivalent proceedings under their own law) before the definitive decision is adopted; the business association and its affiliated company indicated in the application, is obligated to notify the minister in charge of taxation of this fact forthwith;

d) any securities have already been allocated under the program;

e) the facts disclosed afford sufficient evidence that the implementation of the program is likely to violate the principle of legal practice.

(21) The application for registration shall be submitted subject to the form and content requirements set out in this Act and in the ministerial decree enacted under its authorization, and it shall be subscribed by an attorney or a tax consultant. It shall contain the applicant's statement declaring that all information disclosed is true and correct. The application shall also have all of the documents prescribed in the ministerial decree attached.

(22) The minister in charge of taxation shall remove a program from the register

a) effective as of the last day of the fifth year from the date on which the first security was deposited under the program, or as of the last day of the eligibility period in the case defined in Paragraph c) of Subsection (1); the program organizer shall notify the minister in charge of taxation concerning such deposit within 15 days;

b) as of the time of the opening of any dissolution procedure or bankruptcy or liquidation proceeding if the program organizer, its affiliated company indicated in the application or the issuer (or their successor) is engaged in a dissolution procedure or bankruptcy or liquidation proceeding following registration and before the date specified in Paragraph a); the program organizer is obligated to notify the minister in charge of taxation of this fact forthwith;

c) as of the date indicated in the application if the program organizer requests removal from the register before the date specified in Paragraph a).

(23) If the minister in charge of taxation does not reject the application for authorization within the administrative time limit, it shall be subject to the legal consequences applicable as if it had been approved. The minister in charge of taxation shall convey its final decision on the registration or cancellation of a program, along with an original copy of the application to the state tax authority.

(24) For the purposes of the provisions concerning the income obtained within the framework of an approved employee securities benefit program:

a) 'approved program' shall mean an employee securities benefit program to which the minister in charge of taxation has granted such status;

b) 'security' shall mean a registered share incorporating membership rights that has been issued by the approved program organizer or its affiliated company, or - if the program organizer is the Hungarian branch or commercial representation of a foreign-registered company - the foreign-registered company or its affiliated company in any EEA Member State or in a Member State of the Organization for Economic Cooperation and Development (OECD);

c) 'compulsory deposit period' shall mean the period that begins on the initial day of the compulsory deposit period and ends on the last day of the second calendar year following said initiation date, or - if this is sooner - on the day when keeping the security on behalf of the private individual is no longer possible in consequence of the buyer exercising his purchase option afforded under Section 76/D of the Act on the Capital Market;

d) 'initial day of the compulsory deposit period' shall mean the day on which the security obtained under the approved program is deposited or - if the security was obtained by way of a purchase, subscription or other similar right, other than those mentioned in Paragraph c) of Subsection (1) - the first day of the private individual's entitlement to exercise such right;

e) 'program organizer' shall mean the business association applying to register the program, or a foreign-registered company that applies to have the program registered by way of its Hungarian branch or commercial representation, following registration of the program including the successors of the prior;

f) 'majority shareholder' shall mean a legal person or other organization that controls, directly or indirectly, over 50 per cent of the votes in the program organizer;

g) 'chief accounting officer' shall mean a private individual entrusted, whether under contract or employment, to operate and control the accounting system and to prepare the annual report;

h) 'executive officer' shall mean a private individual vested with powers of representation of the legal person or other organization.

PART FOUR

MISCELLANEOUS, CLOSING AND TRANSITIONAL PROVISIONS

Order of Statistical Categorization

Section 78.

Statements and Declarations

Section 78/A.

(1) A private individual, in order to have a small-scale producer license issued or validated, shall issue a statement in accordance with the specifications set forth in a Government Decree to the issuer of the license on the following:

- a) on his figures on production and on the sale of products of own production;
- b) on having his own farm which is sufficient to achieve the production and sales volume indicated in the statement, including, in respect of the collection of forest byproducts, as having the consent of the party with right of disposition over the territory involved;
- c) as to having the right of disposition over the production tools (including rented tools), over the organization of production and over the utilization of the results of such production;
- d) on regularly participating in the operation of the farm and of the production tools, also if engaged in small-scale agricultural activities together with another small-scale agricultural producer (or producers), including the joint activities described in Subsection (2), in connection with which all such farmers have filed a statement regarding the same farm and/or production tools as described in Paragraphs b) and c);
- e) the statement shall include the location and size of the land used and available (own or leased) for production broken down per type of cultivation, also the crop structure, livestock and information on the building used for the livestock.

(2) A private individual, as an appendix to the statement described in Subsection (1), may also file a joint statement together with his family member(s) living in the same household on his intention to engage in small-scale agricultural activities under a joint small-scale producer license (hereinafter referred to as "joint license") in the manner and under the conditions described in Point 2 of Schedule No. 6 (hereinafter referred to as "joint small-scale agricultural activities"), whereby the spouse, direct relatives (including adopted, step and foster children, as well as the adopting, step and foster parents) shall be regarded as such family members. In this case each family member shall apply the same taxation method in respect of his/her income from small-scale agricultural operations, furthermore such family members may not be in the employment of or any other work-related legal relationship with one another and may not apply the provisions pertaining to family workers in respect of each other. Another prerequisite of the joint statement is that persons filing such statement shall apply the same taxation method in respect of value added tax as well.

(3) For the purposes of Subsection (3) of Section 46, a payer shall request the small-scale producer license to be presented, however, such payer shall not be required to register the paid amount if the small-scale agricultural producer signs the payer's copy of the receipt issued by the payer to indicate his intention as to having the paid amount recorded by himself in the small-scale producer license in accordance with the provisions of the relevant government decree. The payer, in this case as well, shall indicate the small-scale agricultural producer's tax identification number and small-scale producer license number, or registration number in the disclosure submitted to the tax authority on such payments - subject to the formal requirements and by the deadline prescribed by the Act on the Rules of Taxation - in the tax return containing the incomes paid or provided.

(4) Agricultural smallholders using itemized expense accounting and with annual revenues exceeding the amount limit for tax exemption (Section 23), but below 4 million forints, with the annual revenues indicated, stating that they had no income from small-scale agricultural production during the tax year (negative statement), provided if having invoice(s), issued to his name, on his expenses, approved as costs

in Schedule No. 3, incurred in connection with such activities in the amount to cover at least 20 per cent of the revenues and if confirming such fact in his statement. Invoices on vehicle use may only be applied for expense accounting if supported by a mileage log maintained as prescribed by law. In respect of the years when a small-scale agricultural producer is applying the provisions of this Subsection, the depreciation of tangible assets and intangible assets and 20 per cent of the deferred losses shall be considered as claimed each year.

(5) Family members working under a joint license shall each be eligible to file the statement described in Subsection (4) separately, however, only if all such members follow the same procedure.

(6) Agricultural smallholders may issue a negative statement under the conditions referred to in Subsections (4) and (5) in the tax return or in the tax assessment by the employer.

(7) The negative statements issued as per the provisions of Subsections (4)-(6) shall be equal to tax returns for which the provisions on tax returns shall be applied regarding other aspects as well.

(8)

Fuel Price

Section 78/B.

Authorizations

Section 79.

In view of fluctuations in prices and income, the Government will submit a proposition for the tax rates for the following year together with the Bill on the Central Budget.

Section 80.

The Government is hereby authorized to decree

- a) the rules on contributions for the development of public utilities;
- b) the specific modes of expense reimbursement and the limits of expenses allowed to be claimed for income tax purposes without substantiation;
- c) the categories of transportation allowances which are considered tax-exempt in-kind benefits;
- d)
- e) the regulations on the issuance of small-scale producer licenses;
- f)
- g) the type of diseases underlying the categorization of seriously disabled for reasons of enforcement of personal allowances.

Section 81.

(1) The minister in charge of taxation is hereby authorized to decree

- a) the compulsory use of the printed forms prescribed for the implementation of this Act;
- b) the procedural rules for the registration of approved employee securities benefit programs as well as the administration-service charges payable for the procedure.

(2) The minister in charge of the healthcare system is hereby authorized to decree the rules for the diagnosis and verification of severe disabilities.

(3) The minister in charge of cultural affairs and the minister in charge of taxation are hereby authorized to decree the detailed regulations pertaining to the conditions on the application of the provisions of Point 1.22 of Schedule No. 3 and of Point 1.26 of Schedule No. 11.

(4)

(5) The minister in charge of the hospitality industry is hereby authorized to decree the detailed regulations relating to the application, payment and use of service charges.

Section 81/A.

The agricultural administration body shall have jurisdiction regarding the duties in connection with the issuance and extension of small-scale producer licenses and the registration of data on small-scale agricultural producers as prescribed in this Act. Each quarter the agricultural administration body shall disclose data to the tax authority concerning the issuance, revocation and the particulars of such agricultural licenses by the 20th day of the month following the quarter. For the issuance and registration of small-scale producer licenses private individuals shall disclose and substantiate the information prescribed by this Act, along with the tax identification number, which shall be used by the agricultural administration body for the issuance of the license and for the fulfillment of its obligation to disclose data as required by law. The agricultural administration body shall carry out its duties in connection with the small-scale producer licenses, as described above, in observation of the provisions of the Act on the Rules of Taxation pertaining to the tax authority, unless otherwise prescribed by law.

Section 82.

(1) The MNB shall publish in the *Magyar Közlöny* the Euro exchange rates for the foreign currencies not listed in the official MNB schedule of foreign exchange rates.

(2) state tax authority shall publish in the *Magyar Közlöny* each month, by the 25th day of the month preceding the month under review, the fuel prices to be applied for consumption rate based fuel-cost accounting. These fuel prices are established on the basis of the mathematical average of the fuel prices of the three largest domestic fuel companies in effect on the first day of the month preceding the month in review, with one forint added to the liter price established in accordance with the above, in round figures. If the retail fuel price was increased in consequence of changes in the regulations prescribed by law or by a government decree, the fuel price published for the month may be applied with the price increase included for the date when the retail price was increased on account of the above-specified amendments of regulations, up to the end of that month.

(3) The minister in charge of taxation shall publish in the *Magyar Közlöny* the list of low tax-rate states.

Enacting and Transitional Provisions

Section 83.

(1) This Act shall enter into force on 1 January 1996. Its provisions shall be applied, with due regard to Subsections (2)-(8) as well, to income obtained and tax liabilities incurred subsequent to 1 January 1996.

(2)

(3)

(4)

(5)-(6)

(7)

(8) The provisions of this Act shall apply to income credited or paid as interest following the date of this Act entering into force, irrespective of the period of time the interest applies to.

(9) state tax authority shall open a treasury account for the administration of cash reserves which are available for use by private entrepreneurs, and in connection therewith, shall maintain sufficient records to keep track of the average annual balances of the amounts paid in by private entrepreneurs as cash reserves and the amounts of cash withdrawn from the account, and to assess and credit the applicable interest. The keeping of records on the cash reserve in the treasury account opened by state tax authority shall not be included in the scope of the Act on Financial Institutions and on the Activities of Financial Institutions .

(10) Any reference made in legal regulations to the Act on the Income Tax of Private Individuals , with or without the Act number, it is to be understood as the Act on Personal Income Tax.

(11) The provisions of this Act pertaining to law offices, independent lawyers and members of law offices shall also apply to court bailiffs' offices, patent practitioners office and patent agents, as well as to notary's offices, notaries public and members of notary's offices, independent court bailiffs and members of court bailiffs' offices, patent practitioners office and patent agents, as well as to notary's offices, notaries public and members of notary's offices.

(12) Private individuals shall have the option to determine the depreciation of tangible assets on the basis of the statistical classification numbers or customs headings in effect at the time the assets were put into service.

(13) In connection with a value-increasing investment implemented before 31 December 2007 private individuals may also apply the provisions of Point 32 of Section 3 of this Act in effect on 31 December 2006.

Section 83/A.

(1) Private individuals shall repay any investment tax credit they have received by 20 April 2007. The state tax authority shall assess the amount of tax credit the private individual is liable to repay - according to Subsection (4) - by 31 May 2004, and shall record it in the private individual's tax credit account as a liability dated 20 March 2004; this liability shall not be subject to any late charges before 20 April 2007. The state tax authority shall notify the private individuals affected by such liabilities by 30 June 2004.

(2) If repayment is effected before the deadline prescribed in Subsection (1), and if the private individual has no outstanding and enforceable public debts owed to the state tax authority, the private individual in question shall be entitled to the allowances under Paragraphs a)-c) (repayment allowances):

a) if the private individual does not (cannot) claim any investment tax credit for 2003, 81.82 per cent of the sum the private individual has paid to a special account by 31 October 2004, or maximum 45 per cent of the whole amount subject to repayment before the payment was made shall be credited by the state tax authority as an item to be deducted from the amount subject to repayment;

b) 25 per cent of the sum the private individual paid to a special account between 20 March 2004 and 30 June 2005 - not including the case described under Paragraph a) -, or maximum 20 per cent of the whole amount subject to repayment before the payment was made shall be credited by the state tax authority as an item to be deducted from the amount subject to repayment;

c) 5.26 per cent of the sum the private individual paid to a special account between 1 July 2005 and 30 June 2006, or maximum 5 per cent of the whole amount subject to repayment before the payment was made shall be credited by the state tax authority as an item to be deducted from the amount subject to repayment.

(3) If the state tax authority reduces the private individual's repayment obligation under Paragraphs a)-c) of Subsection (2), the private individual shall receive notice within 30 days following the last day of each period from the tax authority on the amount remaining from the repayment obligation or on any overpayment.

(4) The total investment tax credit of a private individual shall consist of the amount claimed for 2002 from which to calculate the amount repayable with zero investment made in 2003, and the result shall be increased by the amount of tax credit claimed for 2003 on any increments in the investment portfolio, or shall be reduced by the amount of tax credit that falls repayable on any decrease in the investment portfolio in 2003.

(5) The state tax authority shall cancel the unpaid portion of any repayable investment tax credit in the event of the private individual's death upon receipt of notice from his/her spouse or heir, or from a competent court or administrative organ.

(6) If a private individual who wishes to emigrate asks the tax authority to assess his/her taxes, any repayable tax credit outstanding shall be paid within 15 days from the operative date of the tax authority's resolution on said taxes. The tax authority shall adjust the deadline for the repayment obligation shown in a special tax account, and shall inform the private individual concerning the amount of the tax credit and the revised deadline in its tax assessment notice.

(7) The provisions contained in Subsections (1)-(4) shall be interpreted in accordance with the provisions of Section 43 and Schedule No. 8 in effect on 31 December 2003. Any payment made to a wrong account shall not be considered eligible for preferential treatment in terms of repayment, nor shall any deviation from the provisions of this Section be permitted.

Section 84.

(1) Within the framework of Act I of 1994 promulgating the Europe Agreement establishing an association between the Republic of Hungary and the European Communities and their Member States,

signed in Brussels on 16 December 1991, this Act contains regulations that may be approximated with the following legislation of the European Communities:

- a) Council Directive 90/434/EEC on the common system of taxation applicable to mergers, divisions, transfers of assets and exchanges of shares concerning companies of different Member States;
- b) Council Directive 2003/48/EC on taxation of savings income in the form of interest payments;
- c) Commission Recommendation 94/79/EEC on the taxation of certain items of income received by non-residents in a Member State other than that in which they are resident.

(2) This Act contains regulations made in conformity with the Model Convention concerning income and wealth taxes in accordance with the Convention of the Organization for Economic Cooperation and Development (OECD), the related protocols and the accession statements promulgated by Act XV of 1998, as well as the Frascati Manual: Proposed Standard Practice for Surveys on Research and Experimental Development.

(3) This Act contains an aid scheme within the meaning of Commission Regulation (EC) No. 1857/2006 of 15 December 2006 on the application of Articles 87 and 88 of the Treaty to State aid to small and medium-sized enterprises active in the production of agricultural products and amending Regulation (EC) No 70/2001 (OJ L 358, 16.12.2006, p. 3).

(4) Where any reference is made in this Act to an aid specified in Commission Regulation (EC) No. 1857/2006 mentioned in Subsection (3), it shall mean to be understood - without any specific indication - as the aid specified in Article 4 of the Regulation.

Enacting, Closing and Transitional Provisions to the Amendments of Act CXVII of 1995 on Personal Income Tax

Act XI of 1996 on the Amendment of Act CXVII of 1995 on Personal Income Tax

Section 3.

This Act shall enter into force on the day of its promulgation and its provisions shall be applied as of the first day of the month following the date of promulgation, whereby payers may apply the provisions of Subsection (4) of Section 46 of Act CXVII of 1995 (hereinafter referred to as 'PIA'), and employers may apply the provisions of Paragraph c) of Subsection (2) and Paragraph a) of Subsection (5) of Section 47 of the PIA as of 1 January 1996, also in consideration of the provisions of Subsection (6) of Section 48 of the PIA.

Act LXXXIII of 1996 on the Amendment of Act CXVII of 1995 on Personal Income Tax

Section 63.

(1) The allowance described in Subsection (1) of Section 37 of Act CXVII of 1995 (hereinafter referred to as 'PIA') may only be applied for the contracts concluded before 1 January 1997 and during the 2001 tax year for the last time.

(2) 25 per cent of the interests paid during the tax year on a loan borrowed by a private individual regarded as private entrepreneur or agricultural smallholder according to the provisions in effect prior to 1 January 1997 based on a loan contract concluded before 1 January 1997 with a financial institution for business purposes to be used between 31 December 1993 and 1 January 1996, or for financing investments and current assets solely for the purposes of such private entrepreneurial or agricultural smallholders activities may be deducted from the consolidated tax base.

(3) The private entrepreneur, also if registered as a sole proprietorship, who, in accordance with the provisions of the Act on Corporate Tax in effect in 1996 (hereinafter referred to as 'CorpTx') is transferred under the scope of the PIA as of 1 January 1997 without any interruption in his operations, shall proceed as per the following if using entrepreneurial income taxation system:

a)-b)

c) In respect of the losses deferred and unsettled before the transition the provisions of Chapter VI of this Act shall be applied.

d) If the private individual was granted eligibility for the tax allowance described in the Act on Corporate Tax, he may apply such allowance after 1 January 1997 in observation of the provisions of the Act on Corporate Tax and Dividend Tax, whereby the tax calculated on the basis of such provisions shall be understood as the entrepreneurial income tax.

(4)-(7)

(8) The tax on the income paid to a private individual in connection with the subscribed capital increased on the basis of Paragraph c) of Subsection (3) of Section 9 of the CorpTx, as decreased or cancelled in the manner specified therein, shall be 10 per cent.

(9)

Section 64.

(1) This Act shall enter into force on 1 January 1997. Its provisions shall be applied, with due regard to Subsections (2)-(6) as well, to incomes obtained and tax liabilities incurred subsequent to 1 January 1997. Simultaneously, Schedules Nos. 1 and 5 to the PIA shall be amended according to Schedules Nos. 1 and 4 to this Act, Schedules Nos. 2, 3 and 6 to the PIA shall be replaced by Schedules Nos. 2, 3 and 5 to this Act, furthermore Schedules Nos. 10, 11, 12 and 13 as described in Schedules Nos. 6, 7, 8 and 9 to this Act shall be appended to the PIA.

(2) Upon this Act entering into force, Subsection (4) of Section 26, Subsection (4) of Section 48, Subsections (3), (5) and (6) of Section 83 and Points 1.6 and 4.11 of Schedule No 1 to the PIA shall be repealed, furthermore, the title 'Tax Payment' shall be inserted before Section 13 of the PIA, and the passage 'furthermore preconceived old-age and accident-related disability pension' shall be appended to the first sentence in Point 8 of Schedule No. 7 to the PIA.

(3) The provision of Subsection (5) of Section 49/B of the PIA, as established by Section 32 of this Act, shall be applied to the payments made after the last day of the sixth month following the last day of the month when the legal regulation described therein enters into force.

(6) The term 'Olympic' in the provision of Point 4.6 of Schedule No. 1 to the PIA shall also constitute para-olympic as of 1 January 1996.

Act XVII of 1997 on the Amendment of Certain Legal Regulations on the Taxation of Agricultural Producers

Section 7.

(1) This Act shall enter into force on the eighth day of its promulgation. Its provisions, with the exception of Subsection (2), shall be applied as of 1 January 1997.

(2) The provisions of Subsections (1)-(3) and (8) of Section 78/A of the PIA, as established by Section 2 of this Act, and the provisions of Subsections (7) and (8), with due regard to the provisions of Subsection (14) as well, shall be applied as of the day of entry into force, while the provisions of Section 78/B of the PIA, as established by Section 3 of this Act, shall be applied as of 1 April.

(3) Subparagraph bc) of Point 18 of Section 3, Subsection (5) of Section 53 and Part III of Schedule No. 2 to the PIA shall be repealed.

(4) The passage '3 million' in Point 19 of Section 3 of the PIA shall be replaced by '4 million'.

(5) The passage 'transitional' in Subsection (6) of Section 22 of the PIA shall be replaced by 'small-scale producers'.

(6)

(7)-(8)

(9) The passage '3 million' in Subsection (5) of Section 52 of the PIA shall be replaced by '4 million'.

(10) The passage 'agricultural smallholder' in Subsection (1) of Section 53 of PIA shall be repealed.

(11)

(12) The small-scale agricultural producer who received his small-scale agricultural producer license prior to this Act entering into force may continue to use this license, or may request to have a new license

issued in accordance with the provisions of the PIA as amended by this Act upon surrendering the old license.

(13) The small-scale agricultural producer who was not eligible to obtain a small-scale agricultural producer license prior to this Act entering into force and if on such grounds tax advance was deducted from his revenues, may request the provisions of the PIA pertaining to the correction of erroneously deducted tax advances to be applied.

(14) The provisions of Subsection (8) of Section 78/A of the PIA, as established by Section 2 of this Act, and the provisions established in Subsections (7) and (8) may only be applied regarding the work contracts concluded after the date of this Act entering into force. In respect of the contracts concluded previously the current legal regulations shall be applied.

(15) The taxpayers engaged in agricultural activities, as described by the provisions of the VAT Act, as of the date of this Act entering into force shall be entitled to the special legal status governed in Chapter XIII of the VAT Act (hereinafter referred to as "special legal status") as of 1 January 1997, provided if such taxpayer did not file a statement with the tax authority prior to this Act entering force based on which he is granted individual tax exemption effective as of 1 January 1997, or is using another mode of taxation.

(16) The taxpayers engaged in the activities described in Subsection (15) who did file a statement with the tax authority prior to this Act entering force based on which he is granted individual tax exemption effective as of 1 January 1997, or is using another mode of taxation, may, in contrast with the provisions of Subsection (1) of Section 57 of the VAT Act, decide to choose the special legal status as of the first day of the second month following this Act entering into force, if reporting such fact to the tax authority within 30 days of this Act entering into force.

(17) By way of derogation from the provisions of Point 1 of Schedule No. 6 to Act XCI of 1990, as amended, on the Rules of Taxation, in 1997 agricultural smallholders may notify their selection to use flat-rate taxation also by having the chosen taxation method registered in the small-scale producer license when receiving the small-scale producer license.

(18)

Act LXXXVIII of 1997 on the Amendment of Act CXVII of 1995 on Personal Income Tax

Section 3.

(1) This Act shall enter into force on the eighth day of its promulgation.

(2) The provisions of Paragraph a), as established by Section 1 of this Act, of Point 18 of Section 3 of Act CXVII of 1995 (hereinafter referred to as "PIA") shall be applied as of 1 January 1997.

(3) The provisions of Subsection (3), as established by Section 2 of this Act, of Section 28 of the PIA shall be applied as of 5 June 1997, whereby the payments made after such date on the grounds of foreign assignment (foreign service) in progress at that time may be applied for income calculation purposes as well.

Act CV of 1997 on the Amendment of Act CXVII of 1995 on Personal Income Tax

Section 40.

(1) This Act shall enter into force on 1 January 1998. Its provisions shall be applied, with due regard to Subsections (2)-(16) as well, to incomes obtained and tax liabilities incurred subsequent to 1 January 1998. Simultaneously, Schedules Nos. 1-7 to the PIA shall be amended by Schedules Nos. 1-7 to this Act, and Schedules Nos. 10, 11 and 13 of the PIA shall be amended by Schedules Nos. 8, 9 and 10 to this Act. Upon this Act entering force, Point 5 of Section 3, Point 4 of Paragraph a) of Subsection (1) of Section 50, Subsections (1) and (4) of Section 60, the passage 'written' from Paragraph b) of Subsection (1) of Section 78/A, Section 78/B, Paragraph d) of Point 6.5 and Point 6.6 of Schedule No. 1, Points 4, 10, 11 and 12 of Chapter II of Schedule No. 5 and the last sentence of Chapter IV of Schedule No. 11 to the PIA shall be

repealed. The provisions of Point II/5 of Schedule No. 3 to Act XC of 1991 shall not be applied as of 1 January 1997.

(2) Paragraph h), as established by Section 11 of this Act, of Section 34 of the PIA, and the provisions pertaining to valuable considerations granted on the basis of the Act on Child Protection and Legal Guardianship described in Points 1.3 and 8.27 of Schedule No. 1 to the PIA, as amended by Points 1 and 13 of Schedule No. 1 to this Act, shall be applied as of 1 November 1997.

(3)

(4) The provisions of Paragraph 1) of Section 7 of the PIA established by Section 3 of this Act, Subsection (5) of Section 11 established by Section 4, Paragraph a) of Subsection (2) of Section 12 established by Section 5, Subsection (2) of Section 71 established by Section 32, and Subsection (3) of Section 72/A of the PIA established by Section 33 of this Act, and the provisions of Subsection (5) of this Section shall be applied in respect of the fulfillment of tax liabilities pertaining to 1997.

(5) The private entrepreneur, also if registered as a sole proprietorship, who, in accordance with the provisions of the Act on Corporate Tax in effect in 1996 (hereinafter referred to as "CorpTx") is transferred under the scope of the PIA as of 1 January 1997 without any interruption in his operations, shall, if using the entrepreneurial income taxation system:

a)

b) shall account his receivables accumulated before 1997, if subsequently classified irrecoverable according to Subsection (13) of Section 5 of the CorpTx, as entrepreneurial expenses in the year in which such receivable was classified as irrecoverable.

(6)-(7)

(8) Where any reference is made in the PIA to a company engaged in (performing) securities trading activities, it is to be understood as a securities broker, securities trader and securities investment company, or investment enterprise collectively, as described in the Act on Securities Trading, Investment Services and on the Stock Exchange.

(9) In Subsections (4) and (6) of Section 5 of the PIA the name APEH shall be replaced by MNB.

(10) The passage '1,200 forints' in Section 40 of the PIA shall be replaced by '1,500 forints'.

(11) The following sentence shall be appended to Subsection (5) of Section 48 of the PIA:

The amount of such tax advance may not exceed the highest tax rate indicated in the tax table.

(12) The passage '3 million' in Point 2 of Paragraph a) of Subsection (1) of Section 50 and in Paragraph b) of Subsection (1) of Section 52 of the PIA shall be replaced by '3 and a half million forints' effective as of 1998.

(13) The passage '27 per cent' in Paragraph b) of Subsection (7) of Section 64/A of the PIA shall be replaced by '35 per cent' effective as of 1998.

(14)-(15)

Act XXXIII of 1998 on the Amendment of Tax Acts, the Accounting Act and Certain other Acts

Section 9.

(1) The provisions of this Act in amendment of the PIA, also in observation of Subsections (2)-(3), shall be applied for income obtained and tax liability incurred subsequent to 1 January 1998.

(2)

(3) The provisions of Subsections (1)-(3) of Section 72 of the PIA, as established by Section 7 of this Act, shall be applied as of the 45th day following this Act entering into force, with the exception that the aforementioned provisions shall not be applied for credits granted prior to the above date if the payer has already paid the tax on the interest differential. In respect of the credits, already existing on the above date, for which the payer did not pay the tax on interest differential for whatever reason, the payer shall be required to establish the tax (retroactively as well) as described in Subsection (3) of Section 72 of the PIA also in consideration of the interest differential calculated from the loan date, and shall pay such tax after the last day of the year in which this Act entered into force in accordance with the provisions on the payment of income tax deducted by the payer.

(4) The following passage shall be appended to Paragraph a) of Subsection (2) of Section 82 of the PIA: "rounded up, or if the fuel price was increased in consequence of changes in the regulations prescribed by

law or by a government decree, the fuel price, as amended, established as per the prior on the date of the price increase following the changes in the aforementioned regulations and allowed to be used during the quarter in question as of the aforementioned date.

(5) The first sentence of Subsection (1) of Section 13 of the PIA shall be replaced by the following: 'Private individuals shall pay the difference between the tax payable and the tax advance (tax) paid or deducted during the calendar year to the tax authority by the date prescribed in the Act on the Rules of Taxation.

(6)-(7)

(8) The passage "The cash journal (general ledger) shall be authenticated by the tax authority before being used." in Schedule No. 5 to PIA shall be repealed.

Section 74.

(1) This Act - with the exception of Sections 26-28, Section 30, Sections 58-60, Subsection (3) of Section 63, Subsections (2)-(3) of Section 65, Section 66, Section 67, Sections 71-73 and Subsections (6) and (8) of this Section - shall enter into force on 16 June 1998, however, as pertains to the issuance and registration of the tax number, social security account number and statistical number of private entrepreneurs the provisions in force prior to this Act entering into force shall apply until 1 July 1998.

Act LXV of 1998 on the Amendment of Act CXVII of 1995 on Personal Income Tax

Section 29.

(1) This Act shall enter into force on 1 January 1999. With due consideration of the provisions of Subsections (2)-(7), its provisions shall be applied in respect of income obtained and tax liabilities incurred following 1 January 1999. Simultaneously upon this Act entering into force, Schedules Nos. 1, 3, 5-8, 11 and 13 to the PIA shall be amended in accordance with Schedules Nos. 1-8 to this Act.

(3) The following provisions of the PIA may be applied for determining taxes for 1998: the provisions of Points 23 and 24 of Section 3 as established by Subsection (3) of Section 1 of this Act, the provisions of Paragraph e) of Subsection (2) and Paragraph c) of Subsection (3) of Section 12 as established by Subsections (2)-(3) of Section 4 of this Act, the provisions of Subsection (3) of Section 35 as established by Section 11 of this Act, and the provisions of Point 9.1.5 of Schedule No. 1 as established by Schedule No. 1 to this Act.

(4) In respect of tangible assets commissioned prior to 31 December 1998, private entrepreneurs may continue to apply the depreciation rates set forth in the provisions of Schedule No. 11 as valid on 31 December 1998.

(5)-(7)

Act XCIX of 1999 on the Amendment of Certain Acts Concerning Taxes, Mandatory Contributions and Other Payments to the Central Budget

Section 205.

(1) The provisions laid down in Sections 72-91 of this Act - in due observation of the provisions of Subsections (2)-(6) - shall be applied to the income obtained and tax liabilities incurred subsequent to 1 January 2000.

(2) Paragraph b) of Subsection (3) of Section 11 of the PIA as established by Section 74 of this Act, Subsection (4) of Section 33 of the PIA as established by Section 78 of this Act, and Paragraph c) of Subsection (1) of Section 34 of the PIA as established by Section 79 of this Act shall be applied as of 1 January 1999.

(3) Simultaneously with the entry of this Act into force Paragraph d) of Subsection (3) of Section 12, Paragraph b) of Subsection (4) of Section 36, Subsections (3)-(4) of Section 39, Section 53/A, Section 71, Subsection (8) of Section 78/A of the PIA, Point II/5 of Schedule No. 3 to the PIA, furthermore, the

passage "also including the employer's contribution paid during the tax year in respect of a private individual member of the voluntary mutual insurance fund" in Subsection (1) of Section 25 of the PIA, and the passage "spousal supplement" in Point 1.1 of Schedule No. 1, also Point 4.7 of Schedule No. 1 and the passage "if provided by the employer solely in connection with the performance of work" in Point 8.11 of Schedule No. 1 to the PIA shall be repealed.

(4) The passage "and student wages" shall be appended to Subsection (1) of Section 28 of the PIA, the passage "from the income included in the tax return, in the employer's statement of account or another statement of account of the like" shall be appended to the preface of Section 33/A, the passage "except if the bridging loan" shall be appended to Paragraph b) of Section 38 of the PIA; in the last sentence of Subsection (3) of Section 41 of the PIA the passage "fraudulent information" shall be replaced by "fraudulent data disclosure", in Paragraph c) of Subsection (6) of Section 49/B of the PIA the passage "research and experimental development (SZJ 13)" shall be replaced by "research and development (SZJ 73.10.1, 73.20.1)", in Subsection (1) of Section 57/A of the PIA the passage "hair stylist (SZJ 202100), beautician (SZJ 202210), or passenger transportation (SZJ 091250) services" shall be replaced by "hair stylist (SZJ 93.02.2), beautician (SZJ 93.02.23.1), or passenger transportation (SZJ 60.22.11) services", in Subsection (7) of Section 58 of the PIA the passage "20,000" shall be replaced by "40,000", in Paragraph b) of Subsection (8) of Section 70 of the PIA the passage "postal services (SZJ 09511)" shall be replaced by "postal services (SZJ 64.11.1)", in Section 78 of the PIA the passage "30 June 1998" shall be replaced by "1 July 1999", and in Point II/8 of Schedule No. 5 to PIA the passage "KSH classification number" shall be replaced by "customs tariff code".

(5)-(6)

Section 206.

Schedules Nos. 1, 3, 5-7, and 10-11 of the PIA shall be amended according to Schedules Nos. 7-13 to this Act.

Act CXIII of 2000 on the Amendment of Certain Acts Concerning Taxes, Mandatory Contributions and Other Payments to the Central Budget

Section 266.

(1) The provisions of this Act shall enter into force on 1 January 2001, with the exception of Subsection (2) of this Section and Sections 267-287.

Section 267.

(1) The provisions of Sections 1-30 of this Act - in due observation of Subsections (2)-(10) - shall be applied to income obtained and tax liabilities incurred subsequent to 1 January 2001.

(2) Simultaneously with the entry of this Act into force, Schedules Nos. 1, 2, 3, 5, 6, 10, 11 and 13 to the PIA shall be amended according to Schedules No. 1-8 to this Act and the following shall be repealed: Subsection (2) of Section 42, Subsection (2) of Section 44, Subsection (3) of Section 48, Paragraph b) of Subsection (5) of Section 49/B, the second sentence of Subsection (1) of Section 49/C, the passage "simultaneously with providing proof thereunto" in Subsection (3) of Section 63, Subsection (7) of Section 67, the passage "but only if all his revenues from small-scale production are received from the employer" in Subsection (6) of Section 78/A, Point 16 of Chapter I of Schedule No. 3, Point 18 of Chapter I of Schedule No. 11, and the passage "The cash journal (general ledger) containing the cumulative sales figures and the computer journals containing the itemized sales figures shall only be accepted together." in Point I/1 of Schedule No. 5 to PIA.

(3) Simultaneously with the entry of this Act into force, the passage "3,000 forints per month" in Subsection (1) of Section 21 of the PIA shall be replaced by "half of the wages paid to the employees or half the mandatory minimum wage, whichever is less," the passage "from the income" in Section 33/A of the PIA shall be replaced by "on the income", the passage "shall be reported to the tax authority and shall be paid within 15 days with 20 per cent added" in Subsection (3) of Section 42 of the PIA shall be replaced

by "shall be declared in the tax return filed for the tax year in question with 20 per cent added and shall be paid by the deadline prescribed for filing the tax return", the passage "1 million forints" in Subsection (5) of Section 46 of the PIA shall be replaced by "eligibility limit", the passage "1 million forints" in Subsection (7) of Section 49 of the PIA shall be replaced by "eligibility limit", the passage "15 million" in Paragraph a) of Subsection (1) of Section 52 of the PIA shall be replaced by "18 million", the passage "35" in Paragraph a) of Subsection (1) of Section 53 of the PIA shall be replaced by "40", the passage "17" in Paragraph a) of Subsection (2) of Section 53 shall be replaced by "25"; the passage "In the tax year during which the private entrepreneur is qualified as an auxiliary entrepreneur in respect of any fraction of such year, the tax base for flat-rate taxation shall be established in accordance with Subsection (1)." shall be added to Subsection (5) of Section 53 of the PIA; and furthermore the passage "by the 15th day of the month following the quarter, including the last quarter as well" in Subsection (1) of Section 57/C of the PIA shall be replaced by "according to the provisions of the Act on the Rules of Taxation"; the passage "furthermore, the amount from the sponsor's donation as instructed by the payer and the amount credited by the voluntary mutual insurance fund to the service account of the hedging fund of the voluntary mutual insurance fund from transfer between funds;" shall be added to Paragraph c) of Subsection (5) of Section 69 of the PIA; the passage "1,500,000" in Subsection (4) of Section 78/A of the PIA shall be replaced by "2 million", the passage "All revenues and expenses for each month shall be entered and totaled in chronological order, separately for each day, broken down according to VAT rates, each item numbered and dated, on the basis of documents (invoice, other receipts, detailed records), in accordance with the provisions of the Act on the Rules of Taxation pertaining to receipts, book-keeping, registration and deadlines." in Point I/1 of Schedule No. 5 to PIA shall be replaced by "All revenues and expenses for each month shall be entered and totaled in chronological order, separately for each day, each item numbered and dated, on the basis of documents (invoice, other receipts, detailed records), in accordance with the provisions of the Act on the Rules of Taxation pertaining to receipts, bookkeeping, registration and deadlines."

(4) The provisions of Paragraph c) of Subsection (3) of Section 11 of the PIA - as amended by Section 5 of this Act; Paragraphs f) and g) of Subsection (2) of Section 12 of the PIA - established by Section 6 of this Act; Subsection (6) of Section 19 of the PIA - established by Section 9 of this Act; Paragraph a) of Subsection (1) of Section 32 of the PIA - as amended by Section 15 of this Act; Paragraph c) of Subsection (1) of Section 50 of the PIA - as amended by Section 26 of this Act; Point 4.6 of Schedule No. 1 to PIA - as amended by Point 2 of Schedule No. 1 to this Act; Point 6.1 of Schedule No. 1 to PIA - as amended by Point 5 of Schedule No. 1 to this Act; Point 8.23 of Schedule No. 1 to PIA - as amended by Point 6 of Schedule No. 1 to this Act; Point I/6 of Schedule No. 2 to PIA - as amended by Schedule No. 2 to this Act; Points 12 and 27 of Section II/B) of Schedule No. 6 to PIA - as amended by Points 2 and 3 of Schedule No. 5 to this Act; Point 1/6 of Schedule No. 10 to the PIA - as amended by Point 1 of Schedule No. 6 to this Act; Section 33/A of the PIA - as amended by Subsection (3) of this Section; Subsection (5) of Section 53 of the PIA - supplemented by Subsection (3) of this Section; and Subsection (6) of Section 78/A of the PIA - as amended by Subsection (2) of this Section shall be applied to the tax liability for 2000.

(5)-(6)

(7) Section 30 of the PIA shall be replaced by the following provision as of 1 January 2002:

Tax rates shall be as follows, if the amount of income is:

between 0 and 600,000 forints

20%

between 600,001 and

1,200,000 forints

120,000 forints plus 30%

of the part over 600,000 forints

over 1,200,001 forints

300,000 forints plus 40%

of the part over 1,200,000 forints

(8) The provisions of Subsection (7) shall be applied to income obtained and tax liability incurred subsequent to 1 January 2002.

(9)

Act LXXIV of 2001 on the Amendment of Certain Acts Specific to the Financial System

Section 161.

(1) The provisions of this Act on the amendment of the PIA shall apply, in observation of Subsections (5)-(10), to income obtained and tax liability incurred subsequent to 1 January 2002.

(2) Simultaneously with this Act entering into force the following provisions of the PIA shall be repealed: Points 24, 69 and 70 of Section 3; the passage 'not to exceed twice the amount of the normative subsidies granted to day students specified in the Central Budget Act for the given year' in Point 62 of Section 3; the passage 'and rental of a dwelling' in Paragraph g) of Subsection (1) of Section 7; the passage 'pension, other' in Paragraph c) of Subsection (2) of Section 12; the passage 'and such may not be taken into account upon determining small-scale farming revenues' in Subsection (3) of Section 20; the passage 'but not to exceed 1,200,000 forints' in Subsection (6) of Section 22; the passage '- other than pension benefits -' in Subsection (10) of Section 47; the second sentence of Subsection (1) of Section 48; Paragraph b) of Subsection (1) of Section 52; the passage 'revenues from such activities exceed forints 4 million or ... due to the absence of any other condition' in Subsection (3) of Section 52; the passage 'orphans' allowance,' and the passage, 'permanent widow's pension due to accidental death granted within the framework of the state social security or social insurance system' in Point 1.1 of Schedule No. 1; the passage 'pre-pension unemployment benefits,' in Point 1.3 of Schedule No. 1; the passage 'furthermore, the services rendered during sports events in sports institutions operated by the payer, with the exception - in respect of the latter - of travel, board and lodging,' in Point 8.6 of Schedule No. 1; and the passage 'and rental' in Point 17 of Chapter I of Schedule No. 3 and in Point 19 of Chapter I of Schedule No. 11.

(3) Simultaneously with this Act entering into force:

a) the passage '(with the exception of pensions and other similarly taxed income)' in Point 21 of Section 3 of the PIA shall be replaced by '(with the exception of non-taxable emoluments)',

b) the passage 'capital gains, and real estate rental' in Paragraph c) of Subsection (3) of Section 11 of the PIA shall be replaced by 'capital gains, securities lending, combined or derivative transactions and real estate rental',

c) the passage 'pension and/or other income falling under the same rules of taxation' in Subsection (5) of Section 11 of the PIA shall be replaced by 'non-taxable emoluments',

d) the passage 'employees of payers falling under the sphere of consolidated payroll accounting of budgetary organs (e.g. the Regional State Budget and Administration Information Service) ... from other payers falling under the same sphere of accounting' in Paragraph d) of Subsection (2) of Section 12 of the PIA shall be replaced by 'employees of payers falling under the sphere of consolidated remuneration accounting of budgetary organs ... from other payers falling under the same sphere of accounting',

e) the passages 'the tax payable and the tax advance (tax) paid or deducted during the calendar year' in the first sentence of Subsection (1) of Section 13 and 'the amount of tax advance paid or deducted during the calendar year' in the second sentence of Subsection (1) of Section 13 of the PIA shall be replaced by 'the amount of tax advance (tax) paid or deducted from the income earned during the calendar year',

f) the passage 'residence' in Paragraph b) of Subsection (2) of Section 25 of the PIA shall be replaced by 'place of abode',

g) the passage 'pensions and from other sources of income taxed the same manner' in Subsection (4) of Section 46 of the PIA shall be replaced by 'non-taxable emoluments',

h) the passage 'pension or other income taxed the same way' and the passage 'pension and/or the other income taxed in the same way' in Subsection (6) of Section 46 of the PIA shall both be replaced by 'non-taxable emoluments',

i) the passage 'income taxed the same way as pension benefits' in Subsection (11) of Section 47 of the PIA shall be replaced by 'non-taxable emoluments',

j) the passage '10 million forints per year' in Paragraph d) of Subsection (6) of Section 49/B of the PIA shall be replaced by '30 million forints per year',

k) the passage 'arable land located in an unincorporated area and under agricultural cultivation' in Subsection (2) of Section 64 of the PIA shall be replaced by 'arable land under agricultural cultivation that is located in Hungary - or in a Member State of the European Communities effective as of the operative date of the Act promulgating the treaty on the accession of the Republic of Hungary to the European Union -',

l) the passage 'interest rate' in the first sentence of Subsection (1) of Section 72 of the PIA shall be replaced by 'interest rate (including the commission charged on securities lending)',

m) the passage 'remodeling of a dwelling' in Paragraph a) of Subsection (4) of Section 72 of the PIA shall be replaced by 'remodeling of a dwelling, or for the repayment of a loan borrowed from a credit institution for either of the aforementioned purposes',

n) the passage 'regular and special child welfare subsidies, housing subsidies, provisions granted to young adults as part of the post-care assistance program, and special benefits granted in addition to child care benefits on the basis of the Child Protection and Legal Guardianship Act' in Point 1.3 of Schedule No. 1 to the PIA shall be replaced by 'cash benefits, special provisions paid to foster parents in addition to child-raising benefits and post-care assistance provided on the basis of the Act on the Protection and Guardianship of Children',

o) the passage 'insurance settlement payments' in Point 6.6 of Schedule No. 1 to PIA shall be replaced by 'settlement payments by insurers defined in Point 6.8'.

(4) Simultaneously with the entry of this Act into force Subsection (2) of Section 9 of Act XXXIII of 1998 on the Amendment of Tax Laws, the Accounting Act and Certain Other Acts shall be repealed.

(5) Subsection (1) of Section 13 of the PIA, as amended by this Act, shall apply to the tax advances deducted or paid on income earned in 2001 as well.

(6) Private individuals may apply the provisions of Subsection (2) of Section 37 and Subsection (3) of Section 42 of the PIA, as amended by this Act, to their repayment obligations incurred subsequent to 1 January 2001.

(7) Taxpayers may apply the following provisions of the PIA, as amended by this Act, in connection with their income earned and tax liability incurred after 1 January 2001:

a) Section 38, if the housing loan borrowed from a credit institution as contracted after 31 December 1993 serves either of the following objectives:

aa) acquisition of title to a residential lot or a new residential suite located in Hungary, including any prevailing dominant tenement of a new residential suite, by deed of sale or any other contract stipulating a consideration; 'new residential suite' means a property whose title is first conveyed through using the loan based on which the allowance is granted, and if it was never before registered as the residence of another person prior to being registered as such by the private individual to whom the allowance was granted,

ab) construction of a residential suite in Hungary by self or by contract,

ac) increasing the floor space of a residential suite located in Hungary, meaning the addition of at least one room;

b) Point 6.1 of Schedule No. 1.

(8) For the purposes of Subsection (8) of Section 67 and Subsection (7) of Section 67/A of the PIA, as amended by this Act, carry-over capital loss and carry-over transaction loss shall be first recognized as those indicated as such in the tax returns filed for 2002, however the amounts of such losses cannot be deducted from income earned during 2001.

(9) Point 8.31 of Schedule No. 1 to the PIA, as established by this Act, shall apply to all income and tax liabilities regardless of in which previous tax year it was earned or incurred, with the exception of the provision pertaining to data disclosure obligation, however, the items shown as tax-exempt in kind benefits shall not be shown as cost value either before or after 1 January 2002.

(10) Point 8.32 of Schedule No. 1 to PIA, as established by this Act, shall enter into force simultaneously with the Act on Electric Energy.

(11) Any reference to the passage 'pensions and other similarly taxed income' in legal regulations shall be understood as 'non-taxable emoluments' unless otherwise prescribed by legal regulation.

Act XLII of 2002 on the Amendment of Certain Acts Concerning Taxes, Mandatory Contributions and Other Payments to the Central Budget

Section 302.

(1) The provisions of this Act on the amendment of the PIA shall be applied to income obtained after 1 January 2003 and the ensuing tax liability in due observation of Subsections (5)-(17).

(2) Simultaneously with the entry of this Act into force, the following provisions of the PIA shall be repealed: Points 27 and 28 of Section 3, Subsection (4) of Section 11, Subsections (6) and (8)-(10) of Section 28, Section 37, the passage ", as well as 30 per cent of the cash donation paid by a non-member private individual sponsor into voluntary mutual insurance fund(s), with the exception, applying for both, if

already deducted by a private entrepreneur when calculating the entrepreneur's tax base" in Subsection (1) of Section 41, Subsections (5) and (8) of Section 49/B, Sections 57/B and 57/C, Subsections (2) and (3) of Section 61, Paragraphs b) and d) of Subsection (1) of Section 66, Subsections (5), (7) and (11) of Section 66, Subsections (3), (4), (6) and (8) of Section 67, Paragraphs a) and b) of Subsection (9) of Section 67, Section 67/A and title preceding it, the passage ", and in respect of pecuniary value granted in the form of securities" in Subsection (1) of Section 69, Subsection (4) of Section 70, the passage "or itemized flat-rate taxation" in Paragraph f) of Subsection (8) of Section 70, Section 78, Points 1 and 2 of Paragraph a) of Subsection (4) of Section 83, the passage "in the tax year of 1999" in Point 3 of Paragraph a) of Subsection (4) of Section 83, Paragraph b) of Subsection (4) of Section 83 and the text following it, furthermore, Point 9.3 of Schedule No. 1, Subparagraph bb) of Paragraph b) of Point 1 of Chapter II of Schedule No. 11, the passage "or itemized flat-rate taxation" in Point 1 of Schedule No. 12 and all of the provisions in Schedule No. 13 before the title "Tax relief for small business" with the exception of the first sentence.

(3) Simultaneously with the entry of this Act into force, the following provisions of the PIA shall be amended as follows:

a) the passage "four (4) million forints" in Point 19 of Section 3 shall be replaced by "six (6) million forints",

b) the passage "law offices" in Point 33 of Section 3 shall be replaced by "law offices and court bailiffs' offices",

c) the passage "pension" in Paragraph a) of Subsection (1) of Section 7 shall be replaced by "pension and accident compensations paid to private individuals receiving pension benefits",

d) the passage "sums paid to a private pension fund by the employer on the basis of a unilateral assumption of an obligation to supplement the membership fees of the private individual pursuant to the provisions of the Act on Private Pensions and Private Pension Funds, and" in Paragraph k) of Subsection (1) of Section 7 shall be replaced by "sums paid to a private pension fund by the employer on the basis of a unilateral assumption of an obligation to supplement the membership fees of the private individual pursuant to the provisions of the Act on Private Pensions and Private Pension Funds, and any membership fee supplement transferred to a voluntary mutual insurance fund as instructed by a member of the private pension fund upon the member's returning to the social security pension system as credited by the voluntary mutual insurance fund to the member's individual account",

e) the passage "the amount paid by the payer for the training" in Paragraph p) of Subsection (1) of Section 7 shall be replaced by "the costs of training ordered by the employer that is meant to provide knowledge that is necessary for a particular position, even if these costs are paid by a person other than the employer, as well as the amount paid by the payer for the training",

f) the passage "controlled foreign company" in Subsection (2) of Section 8 shall be replaced by "person whose corporate or private domicile is located in a low tax-rate state",

g) the passage "250,000 forints" in Section 23 and Subsection (4) of Section 78/A shall be replaced by "400,000 forints" and the passage "2,000,000 forints" in Paragraph b) of Subsection (4) of Section 49 and in Subsection (4) of Section 78/A shall be replaced by "3,000,000 forints",

h) the passage "the pecuniary value acquired through the right in accordance with Subsections (8)-(10) shall be regarded as other income" in Subsection (7) of Section 28 shall be replaced by "and the part of the income obtained by exercising such right shall be regarded as other income, in either case on condition that the right was established or obtained in a transaction offering equal conditions to all parties concerned, or the tax liability prescribed in this Act can otherwise be established",

i) the passage "controlled foreign company" in Subsections (12) and (13) of Section 28 shall be replaced by "legal person or other organization established in a low tax-rate state",

j) the passage "1500" in Subsection (1) of Section 40 shall be replaced by "2000" and the passage "spouse living in the same household, provided" in Subsection (9) of Section 40 shall be replaced by "spouse or common-law spouse living in the same household, if neither of the spouses have claimed any family allowance as a single parent and if",

k) the passage "for public commitments" in Paragraph c) of Subsection (2) of Section 41 shall be replaced by "for the purposes of public commitments (including the support of voluntary mutual insurance funds and the support provided by budgetary agencies for basic research, applied research and experimental development)",

l) the passage "If the payer - in accordance with the rules on establishing tax advance as pertains to employers or payers of wages -" in Paragraph b) of Subsection (2) of Section 49 shall be replaced by "If the

employer or the payer - in accordance with the rules on establishing tax advance as pertains to employers or wage payers -",

m) the passage "eligibility limit" in Subsection (7) of Section 49 shall be replaced by "lowest amount of the highest tax bracket",

n) the passage "or, in specific cases, may select flat-rate taxation or itemized flat-rate taxation, which also include value added tax in accordance with the provisions of the Act on Value Added Tax" in Subsection (1) of Section 49/A shall be replaced by "or may select flat-rate taxation under the conditions defined in this Act and in the Act on the Rules of Taxation",

o) the passage "18 million" in Subsection (4) of Section 50 and in Paragraph a) of Subsection (1) of Section 52 shall be replaced by "22 million",

p) the passage "applied" in Paragraph a) of Subsection (2) of Section 51 shall be replaced by "applied and the base for flat-rate tax shall be increased by the amount established by the private entrepreneur in connection with his inventories on stock and in accordance with the provisions on the termination of entrepreneurial activities at the commencement of using flat-rate taxation",

q) the passage "assess and deduct the tax from the payment" in Subsection (3) of Section 65/A shall be replaced by "assess the tax at the time of payment",

r) the passage "shall be assessed and paid in respect of private entrepreneurs by the deadline prescribed for filing the tax return, and shall be declared in the annual tax return as a liability for the last month of the tax year" in Paragraph b) of Subsection (8) of Section 69 shall be replaced by "shall be assessed in respect of private entrepreneurs and payers other than those required to file annual reports and shown under liabilities for the last month of the tax year; declared in the monthly, quarterly or annual tax return; and paid by the deadline prescribed for filing the respective tax return",

s) the passage "400,000 forints" in Subsection (6) of Section 74 and in Paragraph a) of Point 4.12 of Schedule No. 1 shall be replaced by "600,000 forints",

t) the passage "budgetary and local government sources" in the preface of Paragraph a) of Subsection (4) of Section 83 shall be replaced by "budgetary sources",

u) the passage "up to no more than 2,000 forints each year" in Point 5.5 of Schedule No. 1 shall be replaced by the passage "up to no more than 2,000 forints each year, and the clothing allowance to which public servants are entitled as prescribed by law",

v) the passage "(except: waste incinerator)" under b) Structures in Point 3 of Chapter II of Schedule No. 11 shall be replaced by the passage "(except: waste recovery installation)".

(5) Subsection (8) of Section 49/C and Point 4.6 of Schedule No. 1 to the PIA, as established by this Act, shall enter into force on 1 January 2002 and shall be applied to income obtained after that date and to the ensuing tax liability; the provision contained in Point 4.6 of Schedule No. 1 pertaining to the tax exemption for the physical form of the prize (medal) may be applied to the tax liability of any previous tax year(s).

(6) Where an agreement for a purchase, subscription or selling right concerning securities is executed in writing before 31 December 2002, the grounds for the tax liability on the private individual's income obtained through the exercise of such right before 31 December 2005 shall be determined in accordance with Subsections (7)-(9) of Section 28 of the PIA as effective on 31 December 2002.

(7) The private individual shall be required to declare the amount of housing allowance he had claimed, irrespective of when it was received, with an additional twenty per cent added in the tax return pertaining to the year in which it was received, and he shall pay it by the deadline prescribed for filing the tax return if it was claimed under Section 37 of the PIA as effective prior to 1 January 2003, and if the savings were withdrawn and used for purposes other than housing. The verification of the use of savings for housing purposes as well as the definition of "use for housing purposes" shall be governed by the relevant provisions of the PIA as effective on 31 December 2001.

(8) When determining the income of private entrepreneurs using the entrepreneurial income taxation system for 2003 and 2004, the following shall be added to entrepreneurial revenue:

a) the amount previously claimed as a special allowance on a recurrent donation if the private entrepreneur did not fulfill any of his contractual obligations during the tax year concerning the recurrent donation due to the other party being canceled from the register of non-profit organizations or being dissolved without successor,

b) or twice the amount of such allowance if the private entrepreneur did not fulfill his contractual obligations for any reason other than that which is described in Paragraph a).

(9) The tax authority shall process the applications of private individuals for housing allowances submitted before 31 December 2002 in accordance with the provisions of Subsection (2) of Section 63 of

the PIA as effective on 31 December 2002; housing allowances shall otherwise be governed by the provisions of the PIA as established by this Act if the private individual uses the income for transferring real property or rights in immovables following the entry of this Act into force.

(10) The tax rate on dividends paid by a business association to its members (shareholders, founders) before 31 December 2003 from the sum shown in the balance sheet or simplified balance sheet of 2002 under liabilities on the grounds of dividends and participations declared for 2002 or any other previous year shall be determined on the basis of the provisions of Paragraph a) of Subsection (1) of Section 66 and Subsections (2) and (3) and (6) of Section 66 of the PIA as effective on 31 December 2002.

(11) If a business association submitted an application to the court of registry to register an increase in its subscribed capital before 31 December 2002,

a) the tax liability of its private individual member (shareholder, founder) concerning the part of the valuable consideration obtained in connection with the capital increase in the form of securities or an increase in the nominal value of the securities that originates from those of the business association's own funds that are in excess of the subscribed capital shall be determined and paid according to Paragraph b) of Subsection (1) of Section 66 and Subsection (5) of Section 66 of the PIA,

b) the tax liability of a private individual for the part of the valuable consideration obtained in connection with a capital increase in the form of employee shares or employee participation that originates from those of the business association's own funds that are in excess of the subscribed capital shall be determined and paid according to Paragraph d) of Subsection (1) of Section 66 and Subsection (11) of Section 66 of the PIA

as effective on 31 December 2002.

(12) With respect to a private individual's carry-over capital losses and carry-over transaction losses that were not deducted from his capital gains income or his income from combined or derivative transactions for 2002 and were indicated in his tax return for 2002 in accordance with Paragraph b) of Subsection (8) of Section 67 and Paragraph b) of Subsection (7) of Section 67/A of the PIA, as effective on 31 December 2002; they may be deducted from the private individual's capital gains income for 2003 in the relevant tax return (not including an equivalent statement serving as a declaration).

(13) If a lease agreement for arable land is concluded before 31 December 2002, the lessee shall have the option,

a)

b) if the agreement is for a specified term, to apply the legal provisions in force on 31 December 2002 with regard to the taxation of income received in 2003 and 2004 on the basis of this agreement. The private individual shall notify the payer (if the income in question is from a payer) prior to receiving any payment after this Act enters into force, and such private individual shall be compelled to abide by this choice thereafter.

(14) Section 1/A of the PIA, as established by this Act, shall enter into force simultaneously with the Act promulgating the treaty on the accession of the Republic of Hungary to the European Union; its provisions shall be applied to income obtained after that date and to the ensuing tax liability.

(15) Effective as of 1 January 2002, the following provisions of the PIA shall be amended as follows:

a) the passage "Act on the Service Relation of Professional Members of the Armed Forces" in Paragraph b) of Point 23 of Section 3 shall be replaced by "Act on the Service Relation of Professional Members of the Armed Forces and in the Act on the Legal Status of Professional and Contract Soldiers Serving in the Hungarian Army",

b) the passage "Act on the Service Relation of Professional Members of the Armed Forces" in Point 46 of Section 3 shall be replaced by "Act on the Service Relation of Professional Members of the Armed Forces and in the Act on the Legal Status of Professional and Contract Soldiers Serving in the Hungarian Army",

c) the passage "advances paid on the basis of a legal regulation for newlywed regular members of the armed forces and law enforcement organizations" in Paragraph c) of Subsection (4) of Section 72 shall be replaced by "advances paid on the basis of a legal regulation for newlywed regular members of the armed forces and law enforcement organizations and recruitment benefits and advances paid on the basis of a legal regulation for newlywed regular and contract members serving in the Hungarian Army",

d) the passage "Decree of the Council of Ministers on the Compensation of Meal Allowance of Employees on Official Assignment in Hungary, and by the Act on the Legal Status of Civil Servants, the Government Decree on the Work Conditions, Work- and Off-Hours, Rewards and Benefits of Civil Servants and by the Act on the Service Relation of the Professional Staff Members of Armed Forces and

Organizations" in Point 3 of Chapter II of Schedule No. 3 shall be replaced by "Act on the Legal Status of Civil Servants, the Act on the Service Relation of Professional Members of the Armed Forces, the Act on the Legal Status of Professional and Contract Soldiers Serving in the Hungarian Army, the Government Decree on the Work Conditions, Work and Off-Hours, Rewards and Benefits of Civil Servants and the Decree of the Council of Ministers on the Compensation of Meal Allowance of Employees on Official Assignment in Hungary";

these provisions shall be applied to income obtained after 1 January 2002 and to the ensuing tax liability.

(16) Effective as of 1 January 2004:

a) the following provision shall replace Section 30 of the PIA:

Tax rates shall be as follows, if the amount of income is:

between 0 and 800,000 forints

18 per cent,

between 800,001

and 1,500,000 forints

144,000 forint plus 26 per cent

of the part above 800,000 forints

over 1,500,001 forints

326,000 forints plus 38 per cent

of the part over

1,500,000 forints."

b) The following provisions shall replace Section 33 of the PIA:

Section 33.

(1) Tax credit shall be deducted from the adjusted tax in an amount equal to 18 per cent of the wages received during the tax year, not to exceed 9,000 forints per each month of eligibility, provided that the entire amount of annual income declared in the private individual's tax return or shown in the statement serving as a tax return or in the tax assessment by the tax authority on the basis of data supplied by the taxpayer does not exceed 1,350,000 forints (hereinafter referred to as "eligibility limit").

(2) If the annual gross income of a private individual, as described in Subsection (1), falls between the eligibility limit and the eligibility limit plus 600,000 forints, the amount of tax credit shall be the amount that is in excess of 18 per cent of the amount described in Subsection (1) of the income above the eligibility limit.

(3) If the private individual's total annual income under Subsection (1) remains below 720,000 forints (hereinafter referred to as "extended eligibility limit") tax credit - by way of derogation from Subsection (1) - shall be the amount determined under Subsection (1), plus from the annual income the part that is in excess of 18 per cent of the amount received by multiplying the months of eligibility with 50,000 forints, or maximum 540 forints for each month of eligibility.

(4) If the private individual's total annual income under Subsection (1) is between 720,000 and 756,000 forints, tax credit - by way of derogation from Subsection (1) - shall be the part of the amount determined under Subsection (3) that is in excess of 18 per cent of the income over the extended eligibility limit.

(5) In respect of private entrepreneurs using entrepreneurial income-based taxation, withdrawals and the entrepreneurial dividend base shall both be considered as income from such activities when establishing the limits described in Subsections (1)-(4).

(6) A month of eligibility shall be the month for which the private individual was due to receive wages in the tax year. The month for which the private individual was due to receive wages more than once and/or from more than one payer, shall be regarded as one month of eligibility. One tax year shall include no more than 12 months of eligibility.

c) the passage "40 per cent" in Subsection (2) of Section 73 of the PIA shall be replaced by "the highest tax rate indicated in the tax table (percentage-base tax)";

d) Point 7.3 of Schedule No. 1 shall be repealed.

(17) The provisions contained in Subsection (16) shall be applied to income obtained after 1 January 2004 and to the ensuing tax liability.

(18) The amount of tax credit that can be claimed for 2002 may not be less than the amount of tax credit permitted under the provisions of the PIA in force on 31 December 2001.

(19) For private individuals subject to self-assessment, the tax authority shall determine the difference of the tax credits based on what is contained in their tax returns and what is permitted under the provisions of the PIA in force on 31 December 2002 in accordance with Subsection (18). If the amount calculated under Subsection (18) is greater, the tax authority shall pay the difference to the private individual with default interest at a rate applicable to default penalties. The default interest shall be added for each day of the period from the filing deadline - or if the tax return did not contain the information necessary for calculating the difference, from the date on which the missing information is supplied - until the date of payment. The tax authority shall not pay the difference and the default interest if the combined amount of the difference with default interest and the amount of tax to be refunded as shown in the tax return is below 100 forints; otherwise, it shall pay the tax refund shown in the tax return irrespective of whether it is above or below 100 forints.

(20) The state tax authority shall forthwith notify the private individuals to whom any refund is due under Subsection (19), including default interest, no later than 31 August 2003. The state tax authority shall adjudge any complaint made in connection with the notification by resolution.

(21) In respect of employer's withholding or an equivalent account serving as a declaration, private individuals may request the competent tax authority, by filing an application prescribed for this purpose by the tax authority, to determine the difference between the amount of tax credit under Subsection (18) and that under the provisions of the PIA in force on 31 December 2002. The application must contain the same information that is furnished on the employer's withholding or equivalent account serving as a declaration. The state tax authority shall supply the application form free of charge. There are no fees and charges required for the application.

(22) The application form referred to in Subsection (21) contains the following information:

- a) the private individual's natural identification data and tax identification code;
- b) a petition for determining and paying the difference;
- c) the total amount of income declared for 2002;
- d) the amount of wages earned during 2002;
- e) the number of months of eligibility for 2002;
- f) the amount of tax credit claimed in the account statement serving as a tax return;
- g) the private individual's bank account number or the address if payment is requested by mail.

(23) The state tax authority shall conclude the private individual's application by resolution and shall remit payment if the amount of tax credit under Subsection (18) is greater with default interest at a rate applicable to default penalties irrespective of the amount involved. The default interest shall apply for each day from 20 March 2003 until payment is made if the application is submitted within 180 days following promulgation of the Act on the Amendment of Tax Laws. If the application is submitted after the 180-day deadline following promulgation of the Act on the Amendment of Tax Laws, the default interest shall apply from 20 March 2003 until the 180th day following promulgation of this Act.

(24) The difference, as calculated or established, and its default interest shall have no effect on the private individual's tax return or his employer's withholding or equivalent account serving as a declaration, and, furthermore, the amount received shall not be treated under the PIA as the private individual's revenue. The tax authority shall not exercise its right of withholding with respect to the difference and the default interest. The difference and the default interest shall be paid from the 'other liabilities' account.

(25) The difference under Subsections (19) and (21) may not be claimed by self-revision.

Act XCI of 2003 on the Amendment of Certain Acts Concerning Taxes, Mandatory Contributions and Other Payments to the Central Budget

Section 208.

(1) The provisions of this Act on the amendment of the PIA shall be applied, with due regard to Subsections (2)-(19) as well, to income obtained and tax liabilities incurred subsequent to 1 January 2004.

(2) Simultaneously with this Act entering into force the following provisions of the PIA shall be repealed: the passage "and chambers' registration number" in Paragraph ba) of Point 18 of Section 3; Paragraph bb) of Point 18 of Section 3; the second sentence of Point 54 of Section 3; Point 59 of Section 3; the second and third sentences of Subsection (1) of Section 5; the passage "by the payer" in Paragraph g) of Subsection (1) of Section 7; Paragraph b) of Subsection (2) of Section 7; Subsection (4) of Section 9;

Subsection (4) of Section 14; Section 33/A and the title preceding it; Section 43 and the title preceding it; the passage "on dividend incomes," in Subsection (1) of Section 49/A; Paragraph b) of Subsection (7) of Section 49/B; the passage "(not including plantations)" in Paragraph a) of Subsection (14) of Section 49/B; the passage "and the cash reserves as indicated in the books" in Paragraph b) of Subsection (2) of Section 49/C; Subsections (3)-(5) of Section 49/C; Paragraph c) of Subsection (6) of Section 49/C; Subsection (1) of Section 56; Subsection (8) of Section 65; Subsections (5) and (6) of Section 69; the passage "the value of entertainment and promotional gifts shall be determined as defined in Subsection (1), in which" in the first sentence of Subsection (8) of Section 69; Paragraph b) of Subsection (2) of Section 82; the second sentence of Subsection (12) of Section 83; Point 10 of Chapter IV of Schedule No. 3; Schedule No. 8; Point 13 of Chapter III of Schedule No. 11; Point 1 of Chapter IV of Schedule No. 11; the second indent of Paragraph e) of Point 3 of Chapter II of Schedule No. 11, and Schedule No. 12.

(3) Simultaneously with this Act entering into force the passage "incentive benefits provided to job seekers, income compensation allowance, unemployment benefits for young unemployed persons" in Paragraph d) of Point 21 of Section 3 of the PIA shall be replaced by "incentive benefits provided to job seekers, income supplement and income compensation allowance"; the passage "employment income" in Paragraph f) of Point 21 of Section 3 shall be replaced by "any income under Paragraphs a)-e)"; the passage "Subsections (4)-(5) of Section 4" in Point 57 of Section 3 shall be replaced by "Subsections (5)-(6) of Section 4"; the passage "care benefits" in Point 60 of Section 3 shall be replaced in both places by "family allowance"; the passage "Subsection (4)" in Subsection (5) of Section 4 shall be replaced by "Subsection (5)"; the passages "directly to the payer" and "subsequently reimbursed by the payer" in Paragraph g) of Subsection (1) of Section 7 shall be replaced, by "directly to the person providing it" and "subsequently reimbursed by the provider" respectively; the passage "pension benefits from a private pension fund" in Paragraph c) of Subsection (5) of Section 11 shall be replaced by "sums paid by a private pension fund to the beneficiary other than pension plan benefits"; the passage "400,000 forints" in Section 23 shall be replaced by "600,000 forints"; the passage "care benefits" in Subsection (4) of Section 40 shall be replaced in both places by "family allowance"; the passage "care benefits" in Subsection (5) of Section 40 shall be replaced in both places by "family allowance"; the passage "care benefits" in Subsection (6) of Section 40 shall be replaced in both places by "family allowance"; the passage "18 per cent" in Subsection (9) of Section 49/B shall be replaced by "16 per cent"; the passage "Subsections (9)-(11)" in Subsection (18) of Section 49/B shall be replaced by "Subsections (9)-(11) and (15)"; the passage "Subsections (2)-(3)" in the preface of Subsection (6) of Section 49/C shall be replaced by "Subsection (2)"; the passage "5,000 forints" in Subsection (1) of Section 73 shall be replaced by "15,000 forints"; the passage "600,000 forints" in Subsection (6) of Section 74 shall be replaced by "700,000 forints"; the passage "between the parties" in Subsection (1) of Section 77/A shall be replaced by "between the parties concerned (the private individual and the person from whom the security originates, and the said persons and another person)"; the passage "is not treated as income" in the second sentence of the preface of Subsection (8) of Section 77/A shall be replaced by "tax exempt"; the passage "between the private individual and the person to whom the right was transferred" in Subsection (1) of Section 77/B shall be replaced by "between the parties concerned (the private individual and the person to whom the right was transferred, and the said persons and another person)"; the passage "by way of exercising a right" in Subsection (4) of Section 77/B shall be replaced by "by way of exercising a purchase, subscription or other similar right"; the passage "if the deposited securities" in the preface of Subsection (15) of Section 77/C shall be replaced by "if the securities obtained under an approved program"; the passage "country recognized under the Act on the Capital Market" in Paragraph b) of Subsection (24) of Section 77/C shall be replaced by "Member State of the Organization for Economic Cooperation and Development (OECD)"; the passage "over 400,000 HUF but less" in Subsection (4) of Section 78/A shall be replaced by "exceeding the amount limit for tax exemption (Section 23) but below"; the passage "Organization for Economic Cooperation (OECD)" in Subsection (2) of Section 84 shall be replaced by "Organization for Economic Cooperation and Development (OECD)"; the passage "care benefits" in Point 1.2 of Schedule No. 1 shall be replaced by "family allowance"; the passage "the cash or in-kind benefit provided by" in Point 1.6 of Schedule No. 1 shall be replaced by "the income received from"; the passage "600,000 forints" in Point 4.12 of Schedule No. 1 shall be replaced by "700,000 forints"; the passage "and the clothing allowance to which public servants are entitled as prescribed by law" in Point 5.5 of Schedule No.1 shall be replaced by "and the clothing allowance to which private individual are entitled under the Act on the Legal Status of Civil Servants to the extent prescribed therein"; the passage "in-kind benefits provided" in Point 8.6 of Schedule No. 1 shall be replaced by "benefits provided by means other than money"; the passage "in-kind allowances" in Point 8.16 in Schedule

No. 1 shall be replaced by "benefits by means other than money"; the passages "in-kind allotment (provision)" and "pecuniary, or in-kind allotment" in Point 8.20 of Schedule No. 1 shall be replaced, by "allotment" and "pecuniary benefits or benefits by means other than money" respectively; the passage "in-kind benefits provided to private individuals" in Point 8.22 of Schedule No. 1 shall be replaced by "benefits provided to private individuals by means other than money".

(4) If the private entrepreneur has claimed any small business allowance or tax allowance for small business in accordance with the provisions of the PIA in effect on 31 December 2003, repayment of these allowances shall also be effected under the provisions of the PIA in effect on 31 December 2003.

(5) If a private individual is eligible for tax allowance under Section 38 of the PIA as effective on 31 December 2003, it may be claimed according to Subsections (1)-(6), (8)-(10) of Section 38 of the PIA as effective on 1 January 2004 from the consolidated tax base for 2004 and 2005, disregarding the time limitation referred to in Subsection (7) of Section 38 as effective on 1 January 2004.

(6) The provisions of this Act amending Subsections (2) and (4) of Section 77/A of the PIA shall also apply to income gained and tax liabilities incurred during 2003. Under this provision the legal successor of a business association shall not be subject to data disclosure obligation if terminated before this Act is promulgated; in this case, however, members of the predecessor business association shall not be entitled to apply Paragraph c) of Subsection (2) of Section 77/A of the PIA .

(7) Private individuals shall comply with their tax liabilities arising in connection with any aid they have received on the basis of legal regulation or international agreement in accordance with the provisions of the PIA as effective on 31 December 2003, if the aid was in fact received by that day, or if the private individual lodged a claim underlying the aid according to the relevant legal regulation or international agreement by that day.

(8) When determining the entrepreneurial dividend base of private entrepreneurs using the entrepreneurial income taxation system for 2004, the funds kept in reserve for 2003 according to the provisions of the PIA in effect on 31 December 2003 shall be added to the after-tax entrepreneurial income. This provision shall not apply to private individuals with cash reserve accounts on 31 December 2002.

(9) The cash reserves of private entrepreneurs using flat-rate taxation shall be treated as an entrepreneurial dividend base for 2004 upon switching to the flat-rate taxation system recorded in compliance with the provisions of the PIA in effect at that time, that was not previously treated as an entrepreneurial dividend base. This provision shall not apply to private individuals with cash reserve accounts on 31 December 2002.

(10) Simultaneously with this Act entering into force Paragraph a) of Subsection (13) of Section 302, and Section 304 of Act XLII of 2002 on the Amendment of Certain Acts Concerning Taxes, Mandatory Contributions and Other Payments to the Central Budget, shall be repealed.

(11) The following provisions shall replace Paragraphs a)-c) of Subsection (16) of Section 302 of Act XLII of 2002 on the Amendment of Certain Acts Concerning Taxes, Mandatory Contributions and Other Payments to the Central Budget:

(Effective as of 1 January 2004)

a) the following provision shall replace Section 30 of the PIA:

Tax rates shall be as follows, if the amount of income is:

between 0 and 800,000 forints

18 per cent,

between 800,001

and 1,500,000 forints

144,000 forints plus 26 per cent

of the part above 800,000 forints

over 1,500,001 forints

326,000 forints plus 38 per cent

of the part above

1,500,000 forints

b) The following provisions shall replace Section 33 of the PIA:

Section 33.

(1) Tax credit shall be deducted from the adjusted tax in an amount equal to 18 per cent of the wages received during the tax year, not to exceed 9,000 forints per each month of eligibility, provided that the

entire amount of annual income declared in the private individual's tax return or shown in the statement serving as a tax return or in the tax assessment by the tax authority on the basis of data supplied by the taxpayer does not exceed 1,350,000 forints (hereinafter referred to as "eligibility limit").

(2) If the annual gross income of a private individual, as described in Subsection (1), falls between the eligibility limit and the eligibility limit plus 600,000 forints, the amount of tax credit shall be the amount that is in excess of 18 per cent of the amount described in Subsection (1) of the income above the eligibility limit.

(3) If the private individual's total annual income under Subsection (1) remains below 720,000 forints (hereinafter referred to as "extended eligibility limit") tax credit - by way of derogation from Subsection (1) - shall be the amount determined under Subsection (1), plus from the annual income the part that is in excess of 18 per cent of the amount received by multiplying the months of eligibility with 50,000 forints, or maximum 540 forints for each month of eligibility.

(4) If the private individual's total annual income under Subsection (1) is between 720,000 and 756,000 forints, tax credit - by way of derogation from Subsection (1) - shall be the part of the amount determined under Subsection (3) that is in excess of 18 per cent of the income over the extended eligibility limit.

(5) In respect of private entrepreneurs using entrepreneurial income-based taxation, withdrawals and the entrepreneurial dividend base shall both be considered as income from such activities when establishing the limits described in Subsections (1)-(4).

(6) A month of eligibility shall be the month for which the private individual was due to receive wages in the tax year. The month for which the private individual was due to receive wages more than once and/or from more than one payer, shall be regarded as one month of eligibility. One tax year shall include no more than 12 months of eligibility.

c) the passage "40 per cent" in Subsection (2) of Section 73 of the PIA shall be replaced by "the highest tax rate indicated in the tax table (percentage-base tax)";

(12) Simultaneously with the promulgation of this Act the passage "Subsections (2) and (3) of Section 66" in Subsection (10) of Section 302 of Act XLII of 2002 on the Amendment of Certain Acts Concerning Taxes, Mandatory Contributions and Other Payments to the Central Budget shall be replaced by "Subsections (2), (3) and (6) of Section 66.

(13) Simultaneously with the Act promulgating the treaty on the accession of the Republic of Hungary to the European Union entering into force, the following Paragraph h) shall be appended to Point 17 of Section 3 of the PIA:

(For the purposes of this Act, the terms used herein shall be interpreted as follows:

17) "Private entrepreneur" shall mean)

h) European Community jurists in a self-employed capacity in respect of their activities governed in the Act on Attorneys (except if performing these activities on behalf of a law firm, whether by membership or as an employee).

(14) Simultaneously with the promulgation of this Act the passage "and the clothing allowance to which public servants are entitled as prescribed by law" in Point 5.5 of Schedule No. 1 shall be replaced by "and the clothing allowance to which private individual are entitled under the Act on the Legal Status of Civil Servants"; this provision shall apply to income gained and tax liabilities incurred subsequent to 1 January 2003.

(15) The provision of this Act on establishing Point 5 of Chapter II of Schedule No. 3 of the PIA entitled 'Costs which may be claimed without substantiation' shall enter into force on the day when promulgated, however, it shall be applied pertaining to income earned subsequent to 1 January 2003.

(16) If the payer had concluded a credit (loan) contract by 30 November 2003, the applicable tax on any income from interest rate discounts generated during the term of the credit (loan), shall be paid in accordance with Section 72 of the PIA in effect on 31 December 2003.

(17) If a private individual received any tax exempt non-repayable support from his/her employer for housing purposes in 2003 or during the three preceding years (including any part of a loan granted by the employer for housing purposes that has been cancelled), tax relief for any additional non-repayable aid provided between the date of first payment and the end of the fifth year for housing purposes shall be adjudged according to the provisions of Point 2.7 of Schedule No.1 of the PIA as effective on 31 December 2003.

(18) The provisions of the PIA concerning value added taxes shall apply to the taxes charged in foreign countries which are compatible to value added taxes.

(19) The provisions of Paragraph a) of Subsection (1) of Section 65 of the PIA, as established by this Act, shall apply to all previous tax years in connection with prize drawing deposits.

Act XXVII of 2004 on the Amendments of Financial Regulations for the Purpose of Approximation

Section 66.

(1) This Act - with the exceptions set out in Subsections (2)-(3) of this Section, Sections 67-69, and Sections 72, 74 and 75 - shall enter into force simultaneously with the Act promulgating the treaty on the accession of the Republic of Hungary to the European Union; and at the same time the passage "business of" in Paragraph k) of Subsection (4) of Section 52 of the RTA, the passage "forthwith or" in Paragraph c) of Subsection (4) of Section 90 of the RTA, and Subsection (13) of Section 172 of the RTA shall be repealed.

(2) Sections 4, 5, 21, 23, 26, and Schedule No. 4 of this Act shall enter into force on 1 January 2005; these provisions shall apply to interest payments made subsequently. Section 9 of this Act shall enter into force on 1 January 2005.

(3) Sections 19, 20, 24, and 25 of this Act shall enter into force on the day when promulgated, these provisions to income obtained and tax liabilities incurred subsequent to 1 January 2004.

Section 68.

(1) Any income obtained by a private individual serving in the capacity of an officer or other employee of the European Communities shall be exempt from tax and all other dues, if received between 1 January 2003 and the day immediately preceding the operative date of the Act promulgating the treaty on the accession of the Republic of Hungary to the European Union under the title of wages, salary or any other similar provision, provided that such payment is or has been taxable in the European Communities.

(2) Subsection (1) shall enter into force on the day of promulgation.

Section 69.

(1) Section 22 of this Act shall enter into force on 1 July 2004; it shall apply - with the exception of what is contained in Section 70 - to income earned and tax liability incurred subsequent to this date.

(2) Effective as of 1 July 2004, the passage "30 per cent" in the first sentence of Subsection (1) of Section 36/A of the PIA shall be replaced by "30 per cent, or maximum 60,000 forints annually".

(3) Simultaneously with this Act entering into force the PIA shall be amended as follows:

a) the passage "authorized to engage in private practice providing pharmaceutical services" in Paragraph g) of Point 17 of Section 3 shall be replaced by "authorized to engage in private practice providing pharmaceutical services, to engage in community caretaker/administrator activities, farm caretaker/administrator activities, and in providing social services";

b) the passage "which are not required to be considered part of the private individual's income" in Paragraph b) of Subsection (1) of Section 28 shall be replaced by "that are to be shown under other income or that are not required to be considered part of the private individual's income";

c) the passages "income" and "the sums paid (provided)" in the first sentence of Subsection (8) of Section 28 shall be replaced, respectively, by "taxable income" and "the sums paid (provided) - with the exception of sums credited to the individual account as the return on hedged investments and the sums credited on the basis of valuation differentials -";

d) the passage "sums paid by a private individual member" in Paragraphs a) and b) of Subsection (2) of Section 35 shall be replaced by "sums paid by a private individual member (including the taxable part of employer contributions)";

e) the passage "by a private individual under a maintenance or life annuity contract concluded with another private individual" in Point 7.1 of Schedule No. 1 shall be replaced by the passage "by a private individual under a maintenance or life annuity contract or under contract of inheritance concluded with

another private individual"; these provisions may be applied to income earned and tax liability incurred subsequent to 1 January 2003.

e) the passage "by a private individual under a maintenance or life annuity contract concluded with another private individual" in Point 7.1 of Schedule No. 1 shall be replaced by the passage "by a private individual under a maintenance or life annuity contract or under contract of inheritance concluded with another private individual"; the provisions of Paragraphs a)-e) may be applied to income earned and tax liability incurred subsequent to 1 January 2004.

(4) Simultaneously with this Act entering into force Point 3 of Chapter III of Schedule No. 11 of the PIA shall be repealed. Taxpayers shall not be required to apply this abolished provision to income earned and tax liability incurred subsequent to 1 January 2004.

(5) Simultaneously with the promulgation of this Act, Schedule No. 1 of the PIA shall be amended according to Schedule No. 6 of this Act; this provision may be applied as of 1 January 2004.

Section 70.

(1) The combined total of tax allowances which may be claimed by a private individual pursuant to Section 36/A of the PIA from his tax on the consolidated tax base for 2004 shall be determined as illustrated below:

a) the amount of tax allowance granted under Section 36/A of the PIA as effective on 30 June 2004 shall be calculated:

aa) - if the private individual does not postpone claiming the tax allowance from the current tax year - based on the amount of tuition paid before 1 July 2004 under an adult education contract, and/or

ab) based on the costs of computers and computer accessories acquired by the private individual if purchased (taken possession of) before 1 July 2004 and paid for before 1 July 2004;

b) the amount of tax allowance granted under Section 36/A of the PIA as effective on 1 July 2004 shall be calculated:

ba) - if the private individual does not postpone claiming the tax allowance from the current tax year - based on the amount of tuition - not mentioned in Subparagraph aa) paid under an adult education contract, and/or

bb) based on the costs of computers and computer accessories made by the private individual not mentioned in Subparagraph ab);

c) the total tax allowance to be claimed by a private individual shall be the combined sum of the amounts achieved under Paragraphs a) and b), or maximum 60,000 forints yearly. The person making out a tax allowance certificate shall indicate if the amount shown in the certificate is to be taken into consideration for the calculation under Paragraph b). The person making out the tax allowance certificate shall comply with his data disclosure obligation relating to the certificate separately, as applicable to Paragraphs a) and b).

(2) Private individuals shall be eligible to claim tax allowance in connection with the acquisition of computers and computer accessories (whether purchased, rented or leased) if the relevant contract is concluded within fifteen days following the date of promulgation of this Act - for the last time from the consolidated tax base of 2006 - in accordance with the provisions of the PIA in effect up to the date of promulgation.

(3) Private individuals shall be entitled to claim tax allowance on any tuition they paid under adult education contracts prior to the date of this Act entering into force, that were carried over to the following tax years in accordance with the provisions of the PIA in effect up to the date of this Act entering into force.

(4) The total amount of tax allowance that can be claimed under Section 36/A of the PIA may not exceed 60,000 forints if Subsections (1)-(3) are applied.

Act CI of 2004 on the Amendment of Certain Acts Concerning Taxes, Mandatory Contributions and Other Payments to the Central Budget

Section 299.

This Act - in due observation of what is contained in Sections 300-326 - shall enter into force on 1 January 2005.

Section 300.

(1) The provisions of this Act for the amendment of the PIA - in due observation of what is contained in Subsections (2)-(18) - shall be applied for income earned and tax liability incurred subsequent to 1 January 2005.

(2) The provisions of Points 2, 4 and 5 of Schedule No. 4 to this Act may be applied to contemporary works of art obtained subsequent to 31 December 2004.

(3) Simultaneously with this Act entering into force the following provisions of the PIA shall be repealed: Paragraph t) of Subsection (1) of Section 7; the passages "governing the social security system" and "relating to social security relationship" in Paragraph x) of Subsection (1) of Section 7; Subsection (3) of Section 7; the passage "(or their natural identification data if no tax identification code is available)" in Subsections (9) and (10) of Section 38; Paragraph b) of Subsection (12) of Section 48; the passage "he is tax exempt in accordance with the Value Added Tax Act - and/or if he is engaged in tax exempt activities - provided" in Paragraph c) of Subsection (1) of Section 50; Subsections (2) and (3) of Section 55; the passages "on a regular basis" and "performed for profit (commercial operations)" in Subsection (8) of Section 58; Subsections (6)-(8) of Section 62; the passage "discounted" in Point 2.1 of Schedule No. 1; the passage "for the very first time" in Paragraph b) of the introductory section to Schedule No. 3; Point 7 of Chapter II entitled "Costs which may be claimed without substantiation" of Schedule No. 3; the passage "in bottles over 2 liters in size" in Point 19 of Part B) Plants, plant products of Chapter II entitled "Products and activities of small-scale agricultural producers" of Schedule No. 6; the passage ", in both cases, provided that the private individual does not claim the tax benefit set forth in Points 3 and/or 8 of Schedule 13" in Subparagraph i) of Point 2 of Chapter II entitled "Rules of depreciation write-off" of Schedule No. 11; and the last sentence of Point 9 of Schedule No. 13.

(4) Simultaneously with this Act entering into force:

1) the following passage shall be appended to Subsection (1) of Section 4 of the PIA: "No revenue shall be considered acquired in connection with the use of any asset (equipment, tool, etc.) or service that is to be provided by an entity to the private individuals who participate in its operations for the protection of workers at work, including the provision of services in connection with occupational safety and occupational health requirements prescribed in the Act on Labor Safety as a liability of employers. Where any asset or service provided by the employer for the above-specified reasons can also be used for personal reasons and private purposes, apart from the use for which they were intended and/or any utilization or use for personal reasons and private purposes cannot be automatically precluded, the private individual shall be deemed to have obtained taxable income only if this Act recognizes the utilization or use, or the possibility of utilization or use of the asset in question as a taxable event.",

2) the passage "however, if the private individual is liable to pay only a part of the fair market value, the part of the fair market value that remains after deducting the amount of payment obligation shall - unless this Act contains provisions elsewhere to suggest otherwise - comprise a part of revenues that is to be included when determining the private individual's income" in Paragraph b) of Subsection (1) of Section 7 of the PIA shall be replaced by the passage "however, if the private individual is not required to pay anything or is liable to pay only a part of the fair market value, the fair market value or the part that remains after deducting the amount of payment obligation shall - unless this Act contains provisions elsewhere to suggest otherwise - comprise a part of revenues that is to be included when determining the private individual's income; in this case the fair market value at the time of acquisition shall be taken into account as the cost of acquisition in connection with the transfer of the valuable consideration, whether or not it is expressly prescribed in this Act",

3) the passage "regarding other issues;" in Paragraph p) of Subsection (1) of Section 7 shall be replaced by the passage "regarding other issues; in either case, provided that the said costs are substantiated by a document or invoice that does not contain any indication of the provision of a certificate based on which to claim any tax allowance;",

4) the passage "or for improvements," in Paragraph v) of Subsection (1) of Section 7 shall be replaced by the passage "or for improvements (including any aid the private individual has received under legal regulation or international agreement in connection with the costs of entering into self-employment, before

commencing operations, or in connection with joining an existing business association or establishing a new one),",

5) the passage "(irrespective of whether the service provider is subject to payment of value added tax or not)" in Subsection (3) of Section 10 of the PIA shall be replaced by the passage "(irrespective of whether the service provider is subject to payment of value added tax or not), if, however, the supplier and the provider of the service is not the same person, the date when the right to use the service is obtained shall be recognized as the revenue date",

6) the passage "regardless of what is contained in Subsections (1)-(5)" in Subsection (6) of Section 10 of the PIA shall be replaced by the passage "regardless of what is contained in Subsections (1)-(5), if, however, the private individual has advanced the expenses on the valuable consideration that comprises the revenue to the provider and/or required to account for the receipt, the revenue date - by way of derogation from the above - shall be date of accounting",

7) the passage "tax advance" in Subsection (1) of Section 14 of the PIA shall be replaced by "tax or tax advance",

8) the passage "If a payer has assessed and deducted the tax on certain incomes of the private individual which are to be taxed separately, then the payer so required to deduct taxes shall be responsible for assessing the income and the tax, as well as for deducting and paying the tax; with the exception of the case described in Subsection (3), the tax authority may not demand such tax from the private individual" in Subsection (2) of Section 14 of the PIA shall be replaced by the passage "If a payer has assessed the tax on certain incomes of the private individual which are to be taxed separately, and the tax cannot be deducted, the payer and the private individual shall proceed according to the rules on tax advances",

9) the passage "pertaining to writing off entrepreneurial expenses." in Subsection (4) of Section 16 of the PIA shall be replaced by the passage "pertaining to writing off entrepreneurial expenses. This provision shall apply in connection with the use or utilization of any asset (equipment, tool, etc.) or service in connection with private entrepreneurial activities carried out in a place physically detached from the private residence or at another location entirely, including the provision of services in connection with occupational safety and occupational health requirements only if this Act recognizes the utilization or use, or the possibility of utilization or use of the asset in question as a taxable event. This shall include the use of road passes or tickets; whereby from the costs claimed the amount of entrepreneurial withdrawal may be determined - by decision of the private entrepreneur - either by establishing the costs separately for private use and for official, business use, or 50 per cent of the costs claimed, with the exception if the private entrepreneur has in fact paid any company car tax on the passenger car in question.",

10) the passage "25 per cent" in Paragraph b) of Subsection (1) of Section 21 and in Paragraph e) of Subsection (6) of Section 49/B of the PIA shall be replaced by "50 per cent",

11) the passage "professional examination or to a previously unemployed person" in Subsection (2) of Section 21 shall be replaced by the passage "professional examination or to a previously unemployed person, or a person released from imprisonment within 6 months from the date of release, or a person released on parole",

12) the passage "as divided at the discretion of the small-scale agricultural producer" in Subsection (2) of Section 22 of the PIA shall be replaced by the passage "as divided at the discretion of the small-scale agricultural producer, with the exception that any deferred losses from before 31 December 2003, not yet claimed against income from small-scale agricultural activities may be claimed in accordance with the regulations in effect at the time when they were incurred.",

13) the passage "keep separate records of the costs of each activity when using itemized cost accounting or taxation based on entrepreneurial income, noting that the expenses incurred in connection with both activities must be divided in proportion to the revenues, unless otherwise prescribed in this Act" in Paragraph c) of Subsection (7) of Section 22 of the PIA shall be replaced by the passage "keep separate records of the costs of each activity when using itemized cost accounting or taxation based on entrepreneurial income;

d) unless otherwise prescribed in this Act, the expenses incurred in connection with both activities must be divided in proportion to the revenues,

however, the provisions of Paragraphs a)-d) shall apply mutatis mutandis if the private individual produces any income from self-employment in addition to the income from small-scale agricultural activities in a family homestead",

15) the passage "(130,000 forints if the private individual reaches the retirement age before 1 January 2020 according to the relevant legal regulations)" in Subsection (3) of Section 35 shall be replaced by the passage "(130,000 forints if the private individual reaches the retirement age before 1 January 2020 according to the relevant legal regulations), and the total amount of deductions, including the allowance claimed under Paragraph a) of Subsection (2), may not exceed the combined total specified in Subsection (2)",

16) the passage "certificates, issued in accordance with the provisions of the Act on the Rules of Taxation" in Subsection (5) of Section 35 of the PIA shall be replaced by the passage "certificates issued by the employer on the taxable portion of employer's contribution, or by the voluntary mutual insurance fund in accordance with the provisions of the Act on the Rules of Taxation",

17) the passage "in receipt of the payment" in Subsection (1) of Section 36 of the PIA shall be replaced by the passage "in receipt of the payment, provided that the document or invoice made out on the payment, based on which to claim expenses, contains an indication of the provision of the certificate.",

18) the passage "according to the provisions of the Act on Adult Education" in Subsection (1) of Section 36/A of the PIA shall be replaced by the passage "according to the provisions of the Act on Adult Education, provided that the document or invoice made out on the payment, based on which to claim expenses, contains an indication of the provision of the certificate.",

19) the passage "distributor of the equipment (the supplier or subcontractor)" in Subsection (3) of Section 36/A of the PIA shall be replaced by the passage "distributor of the equipment (the supplier or subcontractor), however, the invoice must contain an indication of the provision of the certificate. On the basis of such invoice costs or depreciation may be accounted only if the private individual did not and will not use the certificate to any extent for claiming the tax allowance (with the exception of workers claiming expenses in connection with teleworking activities performed in accordance with this Act).",

20) the passage "2,000 HUF each month may be deducted" in Subsection (1) of Section 40 of the PIA shall be replaced by the passage "an amount equal to 5 per cent of the prevailing monthly minimum wage in effect on the first day of the tax year (personal allowance) may be deducted each month",

21) the passage "spouse or common-law spouse living in the same household" in Subsection (9) of Section 40 of the PIA shall be replaced by the passage "spouse or common-law spouse living in the same household (including also if the beneficiary is unable to claim any part of the family allowance)",

22) the passage "The amount of insurance tax allowance that may be claimed by a private individual may not exceed HUF 100,000 per tax year" in Subsection (2) of Section 42 of the PIA shall be replaced by the passage "The amount of payment upon which any insurance tax allowance may be claimed by a private individual may be enforced in possession of a certificate issued by the insurance company",

23) the passage "presents his small-scale producer license at the time or before the income is paid out (provided), in which case the payer shall indicate the number of the small-scale producer license in his disclosure of data" in Paragraph a) of Subsection (2) of Section 46 of the PIA shall be replaced by the passage "presents his small-scale producer license or registration document at the time or before the income is paid out (provided), in which case the payer shall indicate the number of the small-scale producer license or registration document in his disclosure of data;",

24) the passage "2,000 forints monthly" in Paragraph c) of Subsection (10) of Section 49 of the PIA shall be replaced by "the monthly amount of personal allowance",

25) the passage "then the private individual shall pay to the tax authority within 15 days of the date when the said amount limit is surpassed the positive difference between the amount received by multiplying the tax advance base determined according to the rules applicable to payers for the withdrawal of tax advance based on the income the payer paid (provided) in the year up to the above-mentioned surpassed date with the highest tax rate of the tax table (percentage-base tax) and the amount of tax advances established by the payer(s) during the tax year on these incomes. If the difference is not paid by the above deadline, the private individual shall declare 12 per cent of the difference" in Subsection (19) of Section 49 of the PIA shall be replaced by the passage "then the private individual shall instruct the payer or payers prior to the payment of any income with which the said amount limit will be surpassed to deduct the tax advance according to the general provisions pertaining to payers, in which case the payer shall proceed according to the private individual's instructions. In the absence of such instruction the private individual shall assess and declare 12 per cent of the difference showing in consequence at year end",

26) the passage "continuous employment and/or of a previously unemployed person" in Paragraph b) of Subsection (6) of Section 49/B shall be replaced by the passage "continuous employment and/or of a

previously unemployed person, or a person released from imprisonment within 6 months from the date of release, or a person released on parole",

27) the passage "Within the meaning of this provision, tangible assets received in exchange within the warranty period, non-operational properties and plantations may not be considered a capital expenditure. Taxpayers engaged in activities classified under the agricultural, hunting and game, or forestry sector shall not be eligible for small business allowance. The small business allowance may not be applied by taxpayers engaged in transportation activities in connection with any capital expenditure on means of transport used in international traffic" in Subsection (12) of Section 49/B shall be replaced by the passage "Within the meaning of this provision, tangible assets and intellectual products received in exchange within the warranty period - if the private entrepreneur claimed any small business allowance with respect to the tangible asset or intellectual product received in exchange - and non-operational properties and plantations may not be considered a capital expenditure.",

28) the passage "20 per cent" in Subsection (7) of Section 49/C, Subsection (6) of Section 58, Subsection (1) of Section 63, Subsection (1) of Section 64/A, Paragraph c) of Subsection (6) of Section 64/A, Subsection (2) of Section 65/A, Subsection (6) of Section 66, Subsection (10) of Section 66, Subsection (6) of Section 68, Subsection (1) of Section 74, Subsection (5) of Section 75, Subsection (2) of Section 76, and Subsection (1) of Section 77 of the PIA shall be replaced by "25 per cent",

29) the passage "4 million forints" in Paragraph a) of Subsection (1) of Section 50, Paragraph c) of Subsection (1) of Section 50 and Paragraph a) of Subsection (1) of Section 52 of the PIA shall be replaced by "8 million forints",

30) the passage "22 million forints" in Subsection (4) of Section 50 and Paragraph a) of Subsection (1) of Section 52 of the PIA shall be replaced by "40 million forints",

31) the passage "private entrepreneur commencing operations during the course of the year" in Subsection (8) of Section 50 of the PIA shall be replaced by the passage "private entrepreneur commencing or terminating operations during the course of the year",

32) the passage "termination of eligibility for flat-rate taxation, in which case the private entrepreneur in question" in Subsection (2) of Section 52 of the PIA shall be replaced by the passage "termination of eligibility for flat-rate taxation, in which case the private entrepreneur in question, and any private entrepreneur using the flat-rate taxation method if restarting operations during the tax year after having terminated it",

33) the passage ": the amount of tax on the total amount of the income, if calculated in accordance with the provisions of Section 53, and is

- a) not more than 200,000 HUF: 12.5%,
- b) between 200,000 HUF and 600,000 HUF: 25%,
- c) between 600,000 HUF and 800,000 HUF: 30%,
- d) over 800,000 HUF: 35%." in Subsection (1) of Section 55 of the PIA shall be replaced by the passage

"(flat-rate tax chart): the amount of flat-rate tax if the income calculated in accordance with the provisions of Section 53 is

between 0 and 1,500,000 forints

18 per cent,

over 1,500,001 forints

270,000 forints plus 38 per cent

of the part above

1,500,000 forints

where

a) if the private entrepreneur has an establishment in a foreign country as well, the income of this foreign branch, calculated according to Section 53, shall be treated for the purposes of this Section as non-taxable income, provided that this income is exempted by the Republic of Hungary by virtue of international agreement implemented by an act or government decree, or on the basis of reciprocity, however, it can be taken into account when calculating the tax amount; in this case the tax calculated according to the flat-rate tax chart on the said non-taxable income shall be deducted from the flat-rate tax;

b) in the case not referred to in Paragraph a), to the extent that any income on which the private individual has paid taxes abroad - which are compatible to personal income tax and to which no stipulations in international agreements or reciprocity agreements apply - is also included in the entrepreneurial income calculated under Section 53, then the flat-rate tax shall be reduced by 90 per cent of the tax paid on that income abroad, or by the tax calculated by the average tax rate contained in the flat-rate tax chart for the

annual income calculated from the annual income in accordance with Section 53, whichever is lower; the average tax rate is calculated by dividing the amount of income calculated in accordance with Section 53 with the flat-rate tax, rounded off to two decimal places;

c) the amount of tax paid abroad shall be translated to forints based on the official MNB exchange rate quoted for the last day of the tax year, or by the Euro exchange rate quoted for the last day of the tax year if the tax was paid in a currency that is not listed by the MNB.",

34) the passage "while if donated as a gift, the value based on which the duties were imposed, or if no such value is available, the fair market value of the movable property at the time of acquisition" in Subsection (4) of Section 58 of the PIA shall be replaced by the passage "or if received without compensation, the value based on which the duties were imposed, or if no such value is available, the fair market value of the movable property at the time of acquisition, and - or otherwise - if any tax has been paid on the income that is taxable at the time of acquisition of the movable property, this income shall also constitute part of the acquisition value",

35) the passage "In such cases, the regulations on income from self-employment activities shall apply." in Subsection (8) of Section 58 of the PIA shall be replaced by the passage "In such cases the regulations on income from self-employment activities shall apply, unless the private individual has acquired the income by way of private entrepreneurial activities. In the application of this provision any transfer against consideration shall be recognized as a gainful activity if it also entails the private individual's right to deduction of value added tax if properly registered.",

36) the passage "income from the transfer of real estate or incorporeal property" in Subsection (1) of Section 61 of the PIA shall be replaced by the passage "income from the transfer of real estate or incorporeal property. The fraction of the income received in compensation for the transfer that is in excess of the known fair market value prevailing at the time of the transaction shall be deemed other income, and it shall not comprise a part of the above-specified income",

37) the passage "c) the tax on the difference between the amount paid as dividend to the private individual and the amount described in Paragraph b) shall be 20 per cent, while the tax on the remaining portion shall be 35 per cent.

For the purposes of this provision, the equity capital shown in the balance sheet of the accounting report filed for the period in respect of which the profit distribution took place, shall constitute the business partnership's equity capital." in Subsection (2) of Section 66 of the PIA shall be replaced by the passage "c) the tax on the difference between the amount approved as dividend to the private individual and the amount described in Paragraph b) shall be 25 per cent, while the tax on the remaining portion shall be 35 per cent.

For the purposes of the calculations under Paragraphs a)-b), the equity capital shown in the balance sheet of the accounting report filed for the period in respect of which the profit distribution took place, shall constitute the business partnership's equity capital. The tax referred to in Paragraph c) shall be calculated on any unpaid portion of the dividend that has been approved, regardless of the amount of any (further) payment and regardless of the time when paid, separately for the dividend(s) approved in the various tax years, based on the provisions contained in Paragraphs a)-b) and with the sums previously paid out included, however, the payment(s) made previously shall be included in the dividends in a chronological order.",

38) the passage "20 per cent" in Subsection (4) of Section 66 and Subsection (8) of Section 66 of the PIA shall be replaced by "25 per cent",

39) the passage "below 5 per cent." in Subsection (9) of Section 66 and Subsection (6) of Section 68 of the PIA shall be replaced by the passage "below 5 per cent, and any tax refund that is due to the private individual by virtue of an act, international agreement, reciprocity, or foreign law from the income tax paid may not be claimed under taxes paid abroad.",

40) the passage "as an in-kind benefit" in Subsection (1) of Section 70 of the PIA shall be replaced by the passage "as an in-kind benefit (including other expenses related to road passes and the use of a company car)",

41) In Subsection (3) of Section 70 of the PIA the passage

above 5,000,000	42,000	21,000
shall be replaced by		
between 5,000,001- 8,000,000	42,000	21,000
between 8,000,001-10,000,000	60,000	30,000
between 10,000,001-15,000,000	82,000	41,000
above 15,000,000	112,000	56,000

42) the passage "other than self-employment" in Subsection (3) of Section 72 of the PIA shall be replaced by the passage "other than self-employment, with the exception if received in connection with the receivables referred to in Paragraph e) of Subsection (4) after the deadline specified therein",

43) the passage "A private individual's revenues" in Subsection (1) of Section 74 of the PIA shall be replaced by "Unless otherwise prescribed in this Act, a private individual's revenues",

44) the passage "700,000 forints" in Subsection (6) of Section 74 of the PIA shall be replaced by "800,000 forints",

45) the passage "25 per cent" in Subsection (3) of Section 76 of the PIA shall be replaced by "33 per cent",

46) the passage "from drawings" in Subsection (4) of Section 76 of the PIA shall be replaced by the passage "from drawings, from any games of chance authorized after 1 January 2005",

47) the passage "shall be treated as income" in Subsection (1) of Section 77/B of the PIA shall be replaced by the passage "shall be treated as income (in connection with a gratuitous or complimentary right, including any income that is deemed taxable at the time the right is acquired)",

48) the passage "employment income obtained by a private individual" in the introductory sentence of Subsection (8) of Section 77/C of the PIA shall be replaced by the passage "employment income obtained by a private individual employed by a business association, or income from activities other than self-employment if received by an executive officer of a business association",

49) the passage "3 million" in Subsection (4) of Section 78/A of the PIA shall be replaced by "4 million",

50) the passage "court bailiffs' offices" in Subsection (11) of Section 83 of the PIA shall be replaced by the passage "court bailiffs' offices, as well as to notary's offices, notaries public and members of notary's offices",

51) the passage "depreciation allowance not written off" in Point 20 of Chapter I entitled "Costs typically arising" of Schedule No. 3 to the PIA shall be replaced by the passage "depreciation allowance not written off, or in respect of tangible and intangible assets which cannot be depreciated, the investment expenses recorded at the time of sale",

noting that Points 1, 4 and 12 of this Subsection shall apply as of 1 January 2004, furthermore, in connection with any deferred losses that were taken into consideration for the tax advances paid in 2004 the provisions of the PIA in force on 1 January 2004 may be applied.

(5) Point 16 of Subsection (4) of this Section shall enter into force on the day of promulgation, and shall apply to certificates issued in connection with the year 2004.

(6) Sections 3-4 of this Act shall enter into force on the day of promulgation, and shall also apply to the calculation and assessment of taxes for 2004.

(7) Subsection (4) of Section 2 and Subsection (4) of Section 5 of this Act shall enter into force on the day of promulgation, and shall apply as of 1 January 2004.

(8) Section 63/A of the PIA shall be repealed as of 1 January 2004, however, if the provisions of Section 63/A of the PIA in force on the day of promulgation of this Act are more favorable from the standpoint of a private individual, the provisions of Section 63/A of the PIA in force before the date of this Act entering into force may be applied in connection with his tax liability for 2004.

(9) Section 9 of this Act, amending Subsection (6) of Section 41 of the PIA, shall enter into force on the day of promulgation, however, it may be applied to income earned before 31 December 2003.

(10) Paragraph h) of Subsection (7) of Section 49/B of the PIA, enacted by Subsection (4) of Section 14 of this Act, shall enter into force on the day of promulgation and it shall apply as of 1 January 2004, however, in connection with any deferred losses that were taken into consideration for the tax advances paid in 2004 the provisions of the PIA in force on 1 January 2004 may be applied.

(11) The tax on dividend or share from profits shown as approved in the balance sheet or simplified balance sheet of a business association made out for the 2004 financial year or for any previous year from the sums shown under liabilities to its member (shareholder, founder), owner, and on any income treated as dividends by the laws of other countries, as paid before 31 December 2005, shall be calculated according to Section 66 of the PIA in effect on 31 December 2004.

(12) Point 1 of Schedule No. 1 to this Act shall enter into force on the day of promulgation, and shall apply to income earned after 1 January 2003.

(13) Points 8, 9 and 15 of Schedule No. 1 to this Act shall enter into force on the day of promulgation, and shall apply to income earned after 1 January 2004.

(14) Section 35 of the PIA shall be repealed as of 1 January 2006, however, if the private individual has claimed any tax allowance under Paragraph a) of Subsection (3) of Section 35 of the PIA in effect before 1

January 2006, the private individual in question and the voluntary mutual insurance fund shall satisfy the related tax liability in accordance with the provisions in force prior to the said date; the employer and the voluntary mutual insurance fund shall comply with the obligation of certification in connection with 2005 in accordance with the relevant provisions of the PIA in effect on 31 December 2005.

(15) No personal income tax advance shall be deducted from any aid financed from the European Agricultural Guidance and Guarantee Fund and paid out by the Agricultural and Regional Development Board in 2004; this provision shall enter into force on the day of promulgation.

(16) If the private individual who has acquired any arable land on the strength of a statement - mentioned in Subsection (3) of Section 7 of the PIA in force as on 31 December 2004 - made in his family estate farmer status alienates this land in the tax year when the underlying contract was submitted to the land title office, or during the following five tax years, the sum determined according to Subsection (1) of Section 61 based on the aforementioned contract shall be deemed revenues from the conveyance of title, or the consideration stipulated in the contract for the purchase of the said arable land, whichever is higher, also noting that:

a) the provisions of this Subsection shall not apply if the private individual reinvests the whole of the proceeds received for the conveyance of the arable land acquired on the strength of his statement towards acquiring title to other arable land within twelve months following the date of conveyance and integrates this land into his family estate;

b) if the conveyance of title takes place after the tax return for that year is filed, but within the aforementioned 12-month period, the private individual may reclaim the tax paid on the income determined under this Subsection by way of self-revision;

c) if the private individual alienates title to the arable land that was acquired in place of the original arable land as specified in Paragraph a), in the tax year when the purchase contract for the original land was submitted to the land title office, or during the following five tax years, the tax liability concerning the alienation of the arable land acquired in place of the original arable land (including any other arable land acquired in place of this arable land) shall be determined in due compliance with the provisions laid down in Paragraphs a)-b).

(17) Paragraph b) of Point 1 Definitions of Chapter II entitled "Rules of depreciation write-off" of Schedule No. 11 to the PIA, enacted by Point 3 of Schedule No. 4 to this Act may be considered applicable to any previous tax years, if the private entrepreneur has claimed any depreciation allowance in connection with the intangible assets to which this provision applies.

Act XXVI of 2005 on the Amendment of Certain Acts Concerning Taxes and Mandatory Contributions

Section 53.

This Act, with due regard to Sections 54-81, shall enter into force on the day when promulgated.

Section 54.

(1) The provisions of this Act amending the PIA shall be applied, with due regard to Subsections (2)-(10) as well, to income gained and tax liabilities incurred subsequent of the date of entry into force.

(2) Simultaneously with this Act entering into force:

a) in Point 10 of Section 3 of the PIA the passage "commuting to work" shall be replaced by "commute to the work place, head office or place of business from the place of abode";

b) in Paragraph b) of Subsection (1) of Section 21 and Paragraphs e) and g) of Subsection (6) of Section 49/B of the PIA the passage "public debts of any kind" shall be replaced by "no outstanding tax debts owed to the state or local tax authority";

c) in Subsection (7) of Section 58 of the PIA the passage "40,000 HUF" shall be replaced by "50,000 forints";

d) in Paragraph e) of Subsection (2) of Section 63 of the PIA the passage "specified in Subsection (5)" shall be replaced by "specified in Subsection (6)";

e) in Point 4.6 of Schedule No. 1 to the PIA the passage "Nobel Prize, the Kossuth Prize, the Széchenyi Prize" shall be replaced by "Nobel Prize, the Descartes Prize of the European Union, the Kossuth Prize, the Széchenyi Prize";

however, Paragraphs b) and c) of this Subsection shall be applied as of 1 January 2005, and Paragraph d) of this Subsection and Paragraph e) of this Subsection may be applied, respectively, as of 1 January 2005 and 1 January 2004.

(3) The provisions of this Act amending Subsections (2) and (5) of Section 22 and Section 49/B of the PIA shall be applied as of 1 January 2005.

(4) The provision of this Act supplementing Subsection (3) of Section 22 of the PIA shall enter into force on 1 January 2006; however, private individuals shall have the option to apply it in connection with the assessment of tax liabilities for 2005.

(5) Subsection (4) of Section 72 of the PIA, enacted by this Act, may be applied as of 1 January 2004.

(6) Subsection (5) of Section 72/A of the PIA, enacted by this Act, may be applied with respect to any sum (non-pecuniary asset) paid (provided) under exemption prior to the entry of this Act into force.

(7) The provision established in Schedule No. 1 to this Act for the amendment of Point 8.12 of Schedule No. 1 to the PIA may apply to any coal allowance that has been provided prior to the entry of this Act into force.

(8) Simultaneously with this Act entering into force, the passage "and health care contribution paid on the entrepreneurial dividend base" in Point 6 of the Chapter "I. Costs typically arising" in Schedule No. 11 to the PIA shall be repealed.

(9) Point 2 p) of Chapter II of Schedule No. 11 to the PIA, as established by Schedule No. 2 to this Act, may be applied as of 1 January 2005.

(10) Simultaneously with this Act entering into force, in Subsection (11) of Section 300 of Act CI of 2004 on the Amendment of Certain Acts Concerning Taxes, Mandatory Contributions and Other Payments to the Central Budget the passage "as paid before 31 December 2005" shall be replaced by "as paid before 31 December 2005, or before 31 May 2006 if the financial year has commenced subsequent to 30 June 2004".

Act LXXXII of 2005 on the Amendments of Financial Regulations

Section 38.

(1) This Act - in due observation of what is contained in Subsections (2)-(3) and with the exceptions set out in Sections 39-50 - shall enter into force on 1 August 2005. Its provisions shall be applied to income obtained and tax liabilities incurred subsequent to the date of entry into force.

(2) The tax allowance introduced by this Act in the amendment of Section 43 of the PIA may be claimed in connection with public dues certificates purchased and validated subsequent to the entry into force of this Act.

(3) The provisions of this Act establishing Point 3 of Chapter I (Costs typically arising) of Schedule No. 3 to the PIA and Point 3 of Chapter I (Costs typically arising) of Schedule No. 11 to the PIA may be in connection with the expenses claimed for any period preceding the date of entry into force.

Section 39.

(1) The provisions of this Act establishing Paragraph q) of Point 72 of Section 3 and supplementing Subsection (1) of Section 25 of the PIA shall enter into force on 1 October 2005, and shall be applied to income obtained and tax liabilities incurred subsequently.

(2) On the day of promulgation of this Act Subsection (1) of Section 64 of the PIA and the passage "Subsection (1)" in Subsection (2) of Section 64 of the PIA shall be repealed; these abolished provisions may not be applied following 11 March 2005 in connection with any arable land that has been transferred previous to the aforementioned date and inside the deadline prescribed for the private individual to declare any income he has obtained in accordance with the said provisions, furthermore, tax may not be established retrospectively on the basis of the said repealed provision.

Section 40.

(1) The provisions of this Act establishing Point 28 of Section 3, Subsection (3) of Section 7 and Chapter III (Miscellaneous provisions) of Schedule No. 2 of the PIA, and the provisions amending Point 5 of Chapter I (Revenues typically arising) of Schedule No. 2, Point 5 of Chapter I (Revenues typically arising) of Schedule No. 10, and Chapter III (Miscellaneous provisions) of Schedule No. 10 of the PIA shall enter into force on the 45th day following promulgation; these provisions must be applied subsequent to this date, and private individuals shall have the option to apply them as of 1 January 2005.

(2) The provisions of this Act amending Section 54 of the PIA shall enter into force on the 45th day following promulgation, these provisions must be applied subsequent to this date, and private individuals shall have the option to apply them as of 1 January 2004 (in due observation of the provisions on self-revision where necessary).

*Act CXIX of 2005 on the Amendment of Certain Acts Concerning Taxes,
Mandatory Contributions and Other Payments to the Central Budget*

Section 178.

(1) The provisions of this Act for the amendment of the PIA - in due observation of what is contained in Subsections (2)-(21) - shall be applied for income earned and tax liability incurred subsequent to the date of entry into force.

(2) Simultaneously with this Act entering into force the following provisions of the PIA shall be repealed: Paragraph *j*) of Point 72 of Section 3; the Title preceding Section 12; the passage “and computer accessories” in Paragraph *nc*) of Subsection (4) of Section 12/A, in the Title preceding Section 36/A and in Subsection (3) of Section 36/A; the Title preceding Section 45; Paragraph *c*) of Subsection (12) of Section 48; the passages “holding a private entrepreneur license” and “licensed” in Subsection (7) of Section 49/A; in Paragraph *e*) of Subsection (7) of Section 49/B the passage “or audit”; in Subsection (4) of Section 51 the passage “, and shall register his current cash reserves and shall enter such reserves in his tax return each year”; Subsection (8) of Section 57/A; Paragraph *jb*) of Subsection (1) of Section 69; in point 8.16 of Schedule No. 1 the passage “enlisted soldiers and”; in Paragraph *b*) of Point 3 of Schedule No. 7 the passage “or pays the premium as increased by the indexing procedure as stipulated in the contract”; Point 4 of Schedule No. 7; in Point 6 of Schedule No. 7 the sentence “This provision may not be applied when the payer is the contracting party of an injury liability or medical care insurance for full and permanent incapacity to work for the insured private individual, the premium of which is tax-exempt in respect of the private individual.”; in Paragraph *b*) of Point 12 of Schedule No. 7 the passage “, unless such partial repurchase occurs to the debit of a named portion of the fees (extraordinary, ad hoc) for which no tax allowances were claimed”.

(3) Simultaneously with this Act entering into force the PIA shall be amended as follows:

a) in Paragraph *c*) of Subsection (5) of Section 11 the passage “to the tax authority” shall be replaced by “to the tax authority by 31 January following the tax year”;

á) in Paragraph *p*) of Subsection (4) of Section 12/A the passage “income earned at a place other than the domestic territory as the place of gainful activity” shall be replaced by “income that is (also) taxable abroad or that is earned at a place other than the domestic territory as the place of gainful activity”;

b) in Paragraph *a*) of Subsection (1) of Section 21 and in Paragraph *a*) of Subsection (6) of Section 49/B the passage “20 per cent of the prevailing minimum wage” shall be replaced by “24 per cent of the prevailing minimum wage”;

c) in Paragraph *b*) of Subsection (1) of Section 21 and in Paragraph *e*) of Subsection (6) of Section 49/B the passage “50 per cent of the sum claimed, according to the provisions of this Act, as expense” shall be replaced by “the costs claimed, according to the provisions of this Act, as expense”;

cs) in Subsection (5) of Section 22 the passage “by deducting an amount determined at the producer’s discretion from the income of one of the previous two years or of both years produced by small-scale agricultural activities (including any income established by way of self-revision or audit), however, the said amount may not exceed the amount of deferred losses for both years.” shall be replaced by “by deducting an amount determined at the producer’s discretion from the income of one of the previous two years or of both years produced by small-scale agricultural activities (including any income established by way of self-

revision), however, the said amount may not exceed the amount of deferred losses for both years. This provision shall apply in the process of tax audit when so instructed by the small-scale agricultural producer.”;

d) in Paragraph *a)* of Subsection (2) of Section 46 the passage “the number of the small-scale producer license or registration document” shall be replaced by “the number of the small-scale producer license or the private individual’s registration number”;

e) in Paragraph *a)* of Subsection (2) of Section 46 the passage “in his disclosure of data” shall be replaced by “in his disclosure of data to be provided before 31 January of the following tax year”;

f) in Paragraph *c)* of Subsection (2) of Section 46 the passage “non-taxable emoluments” shall be replaced by “any revenues that is not to be treated as part of the income and non-taxable emoluments”;

g) in Subsection (9) of Section 47 the passage “by the deadline prescribed by the Act on the Rules of Taxation” shall be replaced by “by 31 January of the following tax year”;

h) in Subparagraph *cb)* of Paragraph *c)* of Subsection (6) of Section 49/B, and in Paragraphs *g)* and *h)* of Subsection (6) of Section 49/B the passage “Subsection (9)” shall be replaced by “Subsections (9)-(10)”;

i) in Paragraph *d)* of Subsection (6) of Section 49/B the passage “Subsection (9)” shall be replaced by “Subsections (9)-(10)”;

j) in the Title preceding Section 50 the passage “Private Entrepreneurs” shall be replaced by “Private Entrepreneurs and Agricultural Smallholders”;

k) in Subsection (7) of Section 69 the passage “By way of derogation from Subsection (3)” shall be replaced by “By way of derogation from Subsection (5)”;

l) in Paragraph *a)* of Subsection (4) of Section 72 the passage “(trade debtors)” shall be replaced by “(trade debtors), and any indemnity, penalty and other similar liabilities payable under contract of legal regulation in connection with these receivables”;

m) in Paragraph *c)* of Subsection (3) of Section 74/A the passage “by the data disclosure deadline prescribed for payers in the Act on the Rules of Taxation” shall be replaced by “by 31 January of the following tax year”;

n) in Subsection (5) of Section 75 the passage “renovation reserve during the tax year” shall be replaced by “renovation reserve, and the consideration received for services mediated by the condominium during the tax year”;

o) in Subsection (6) of Section 75 the passage “supply data to the tax authority. As regards the taxable receipts from sources other than payers, the condominium association shall assess the tax and pay it quarterly in compliance with the provisions of the Act on the Rules of Taxation pertaining to tax advances” shall be replaced by “shall file a declaration to the payer according to the rules for the obligation to file a tax return concerning payments paid and benefits provided to private individuals which are taxable in accordance with the provisions of the Act on the Rules of Taxation. As regards the taxable receipts from sources other than payers, the condominium association shall assess the tax and pay it quarterly in compliance with the provisions of the Act on the Rules of Taxation pertaining to tax advances, and shall declare it in accordance with Subsection (17) of Section 49 of this Act as pertaining to private individuals”;

„(6) The tax on any taxable sums paid to a condominium shall be assessed, deducted and paid by the payer, concerning which the payer is to issue a certificate to the condominium association and shall file a declaration to the payer according to the rules for the obligation to file a tax return concerning payments paid and benefits provided to private individuals which are taxable in accordance with the provisions of the Act on the Rules of Taxation.”

p) in Subsection (4) of Section 77/A, in Paragraph *a)* of Subsection (8) of Section 77/A, and in Subsection (5) of Section 77/B the passage “by the data disclosure deadline prescribed for payers” shall be replaced by “by 31 January of the following tax year”;

q) in Paragraph *a)* of Subsection (9) of Section 77/A the passage “the acquiring company obtains a majority of the voting rights” shall be replaced by “the acquiring company obtains a majority of the voting rights, or shall increase it if already held a majority of the voting rights before the transaction took place”;

r) in Subsection (3) of Section 78/A the passage “disclose data” shall be replaced by “disclose data, by 31 January of the following tax year”;

s) in Point 8.31 of Schedule No. 1 the passage “by the deadline prescribed for payers” shall be replaced by “by 31 January of the following tax year”;

t) in Point 9.1.4 of Schedule No. 1 the passage “by the deadline pertaining to payers as prescribed in the Act on the Rules of Taxation” shall be replaced by “by 31 January of the following tax year”;

u) in Point 9.3.5 of Schedule No. 1 the passage “by the deadline prescribed in the Act on the Rules of Taxation; such information shall pertain to the payer concerning the subsidies provided through its mediation and to employers concerning the loan amounts they have cancelled” shall be replaced by “by 31 January of the following tax year; such information shall pertain to employers concerning the loan amounts they have cancelled”;

v) in Point 7 of the Chapter entitled “I. Revenues typically arising” in Schedule No. 2 and in Point 7 of the Chapter entitled “I. Revenues typically arising” in Schedule No. 10 the passage “over 50,000 forints - or 30,000 forints if purchased before 1 January 2001 -” shall be replaced by “over 100,000 forints - or 50,000 forints if purchased before 1 January 2006 -”;

w) in Point 1 of the Chapter entitled “II. Termination of small-scale agricultural activities” in Schedule No. 2, in Point 13 of the Chapter entitled “II. Detailed Records” of Schedule No. 5, and in Point 1 of the Chapter entitled “II. Revenues in connection with the termination of private entrepreneurial activities” in Schedule No. 10 the passage “50,000” shall be replaced in all instances by “100,000”, and the passages “or 30,000 forints if purchased between 31 December 1991 and 1 January 2001” shall be replaced in all instances by “or 30,000 forints if purchased between 31 December 1991 and 1 January 2001, or 50,000 forints if purchased between 31 December 2000 and 1 January 2006”;

x) in Point 2 of the Chapter entitled “I. Costs typically arising” in Schedule No. 3 and in Point 2 of the Chapter entitled “I. Costs typically arising” in Schedule No. 11 the passage “50,000 forints” shall be replaced by “100,000 forints”;

y) in Point 6 of the Chapter entitled “II. Costs which may be claimed without substantiation” and Point 3 of the Chapter entitled “IV. Vehicles costs” in Schedule No. 3, and in Point 6 of the Chapter entitled “III. Vehicle costs” in Schedule No. 11 the passage “3 forints/kilometer” shall be replaced by “9 forints/kilometer”;

z) in Paragraph b) of Point 2 of the Chapter entitled “II. Rules of depreciation write-off” in Schedule No. 11 the passage “unless depreciation is calculated with regard to the payment of company car tax” shall be replaced by “unless depreciation is calculated with regard to the payment of company car tax or on the basis of Paragraph p)”.

The provisions contained in Paragraph á) shall apply in connection with tax assessment by the tax authority on the basis of data supplied by the taxpayer for 2005; the provisions of Paragraphs cs) and z) may be applied as of 1 January 2005; the provision contained in Paragraph l) may be applied for any period prior to promulgation.

(4) On 1 January 2007 the following provisions shall replace Section 30 of the PIA:

Section 30. Tax rates shall be as follows, if the amount of income is:

between 0 and 1,700,000 forints	18 per cent,
over 1,700,001 forints	
306,000 forints plus 36 per cent of the part above 1,700,000 forints.”	

(5)-(7)

(8) Simultaneously with the promulgation of this Act, in Subsection (5) of Section 35 of the PIA the passage “or by the voluntary mutual insurance fund” shall be replaced by “or by the voluntary mutual insurance fund, private pension fund or the social security administration”; this provision shall apply to certificates issued for 2005 as well.

(9) Point 33 of Section 3 of the PIA, as established by Section 1 of this Act, and Paragraphs a) and i) of Subsection (7) of Section 49/B of the PIA, as established by this Act, may be applied as of 1 January 2005 if they afford better overall terms for the private individual.

(10) The provisions of this Act amending Paragraph j) of Subsection (1) of Section 7 of the PIA and establishing Point 7.3 and Point 6.9 of Schedule No. 1 to the PIA may be applied to the tax liability of any period preceding the date of entry into force.

(11) The provisions of this Act amending Point 7.7 of Schedule No. 1 to the PIA shall enter into force on the day of promulgation; this provision may be applied in connection with meals provided to donors in any period preceding the date of entry into force.

(12) The provision of this Act establishing Point 7.17 of Schedule No. 1 to the PIA shall enter into force on the day of promulgation and it may be applied as of 1 January 2005.

(13) The provision of this Act amending Paragraph p) of Point 2 of Chapter II entitled “Rules of depreciation write-off” of Schedule No. 11 to the PIA may be applied as of 1 January 2005.

(14) Simultaneously with the promulgation of this Act Subsection (14) of Section 300 of Act CI of 2004 on the Amendment of Certain Acts Concerning Taxes, Mandatory Contributions and Other Payments to the Central Budget shall be repealed.

(15) if the private individual has claimed any tax allowance under Paragraph *a*) of Subsection (3) of Section 35 of the PIA in effect before 1 January 2006, the private individual in question and the voluntary mutual insurance fund shall satisfy the related tax liability in accordance with the provisions in force prior to the said date; the employer and the voluntary mutual insurance fund shall comply with the obligation of certification in connection with 2005 in accordance with the relevant provisions of the PIA in effect on 31 December 2005.

(16) The criteria specified in Subsection (3) of Section 40 of the PIA, as established by this Act in 2006 notwithstanding, family allowance may be claimed for fetuses (twin fetuses) in connection with whom the beneficiary was able to claim family allowance in accordance with the provisions of the PIA in effect on 31 December 2005 [in due consideration of what is contained in Subsection (10) of this Section] (for the purposes of this provision hereinafter referred to as “unborn child”). The amount of family allowance available for the unborn child, by way of derogation from the amount specified in the aforementioned Subsection, up to the month preceding the first month of eligibility for family allowance, shall comprise the sum for each unborn child and for each month of eligibility, to which the beneficiary was entitled in accordance with the provisions of the PIA in effect on 31 December 2005 for each unborn child and for each month of eligibility. The family allowance that may be claimed for the unborn child as explained above may be taken into consideration in connection with the assessment of tax advance in due observation of the relevant regulations.

(17) Paragraph *b*) of Subsection (2) of Section 71, as established by this Act, need not be applied to training and education courses starting before 1 January 2006.

(18) Subsection (2) of Section 82 of the PIA, as amended by this Act, shall be applied as of 1 January 2006.

(19) Point 2.7 of Schedule No. 1 to the PIA shall be applied with the exception that instead of four years preceding the year of payment of the subsidies one prior year shall be taken into consideration for 2006, two prior years for 2007 and three prior years for 2008.

(20) If Subsection (3) of Section 26 of the PIA is applied during 2005, private individuals may declare, in their tax return filed for the year when the severance pay was received or in the statement requesting tax assessment by the tax authority on the basis of data supplied by the taxpayer, their intention in writing to abstain from applying the provisions of Subsection (3). Any private individual who has any tax liability for the tax year on account of the carry-over of the severance pay referred to in Subsection (3) of Section 26 may not issue a statement requesting tax assessment by the tax authority on the basis of data supplied by the taxpayer.

(21) Subsection (7) of Section 49/A of the PIA, in effect on 1 January 2006, may be applied in 2004 and 2005 as well.

Section 179.

(1)

(7)-(8)

(9) Point 7.16 of Schedule No.1 to the PIA, as established by this Act, may be applied to transactions credited after 31 August 2006.

(10) Subsection (7) of Section 66 of the PIA, as established by this Act, may be first applied to dividends paid from the profits earned in 2006 and to dividend advance paid in anticipation of the profit for 2006.

(11)-(12)

Act LXI of 2006 on the Amendments of Financial Regulations

Section 223.

(1) The provisions of this Act amending the PIA shall enter into force - subject to the exceptions set out in Subsections (6)-(9) and (11) - on 1 September 2006, and shall be applied - in due observation of what is

contained in Subsections (2)-(5) and (12)-(16) - to income earned and tax liability incurred subsequent to 1 September 2006.

(2) Effective as on 1 September 2006, Section 12/A of the PIA and the preceding Title shall be repealed, as well as the passage “or for tax assessment by the tax authority on the basis of data supplied by the taxpayer” and the passage “in the case of private individuals holding more than one individual retirement account” in Subsection (1) of Section 44/B, the second sentence of Subsection (3) of Section 44/B, Paragraph *b*) of Subsection (1) of Section 67 and Paragraph *g*) of Section 80 of the PIA.

(3) Effective as of 1 September 2006 the following amendments shall be made in the PIA:

a) in the introductory sentence to Point 2 of Section 3 the passage “foreign nationals holding a valid permanent residency permit and stateless persons as well as” shall be replaced by “foreign nationals holding a valid permanent residency permit, stateless persons and”;

b) in Point 75 of Section 3, Paragraph *a*) of Subsection (2) of Section 33, Paragraphs *a*)-*b*) of Subsection (4) of Section 38, Subsection (9) of Section 38, Subsection (1) of Section 44, Subsection (1) of Section 44/A, and in Point 9.5.1 of Schedule No. 1 the passage “tax assessment by the tax authority on the basis of data supplied by the taxpayer” shall be replaced by “tax assessment by the tax authority”, furthermore, in Subsection (1) of Section 10 the passage “tax authority for tax assessment on the basis of data supplied is provided” shall be replaced by “tax authority for tax assessment”, in Subsection (6) of Section 78/A the passage “tax authority for tax assessment on the basis of data supplied by the taxpayer” shall be replaced by “tax authority for tax assessment”;

c) in the introductory sentence to Subsection (2) of Section 25 the passage “the items which are not treated as revenues under this Act” shall be replaced by “the revenues which are not to be treated as part of the income”;

d) in Subsection (4) of Section 26 the passage “tax assessment by the tax authority on the basis of data supplied by the taxpayer” shall be replaced by “tax assessment by the tax authority”;

e) in the introductory sentence to Subsection (1) of Section 28 the passage “shall not constitute part of this income” shall be replaced by “shall not constitute part of this income with due regard to the provisions governing expense accounts”;

f) in Paragraph *b*) of Subsection (6) of Section 38 the passage “tax assessment by the tax authority on the basis of data supplied by the taxpayer” shall be replaced by “tax assessment by the tax authority”;

g) in the introductory sentence to Subsection (2) of Section 66 the passage “shall be assessed as follows” shall be replaced by “shall be assessed as follows, unless prescribed by law to the contrary”;

h) in Paragraph *ac*) of Subsection (9) of Section 67 the passage “(this provision shall also apply to the securities obtained through the increase of the subscribed capital of the business association by way of issuing new securities),” shall be replaced by “(this provision shall also apply to the securities obtained through the increase of the subscribed capital of the business association by way of issuing new securities), provided that the value of the capital contribution as shown in the instrument of constitution shall be taken into account according to the provisions of this Act as part of the income at the time of acquisition of the securities;”;

i) in Subsection (7) of Section 69 the passage “44 per cent” shall be replaced by “54 per cent” in both instances;

j) in Subsection (1) of Section 76 the passage “The total amount” shall be replaced by “In connection with any winnings exempt from the provisions on interest income, the total amount”;

k) in the introductory sentence to Subsection (15) of Section 77/C the passage “After the lapse of the compulsory deposit period” shall be replaced by “After the lapse of the compulsory deposit period and in connection with securities obtained under Paragraph *c*) of Subsection (1)”;

l) in Paragraph *a*) of Subsection (22) of Section 77/C the passage “was deposited under the program,” shall be replaced by “was deposited under the program, or as of the last day of the eligibility period in the case defined in Paragraph *c*) of Subsection (1);”;

m) in Paragraph *d*) of Subsection (24) of Section 77/C the passage “or other similar right” shall be replaced by “or other similar right, other than those mentioned in Paragraph *c*) of Subsection (1)”;

n) in Paragraphs *a*) and *b*) of Point 24 of Chapter I entitled “Costs typically arising” of Schedule No. 3 the passage “50,000 forints” shall be replaced by “100,000 forints”;

o) in Point 3 of Chapter II entitled “Costs which may be claimed without substantiation” of Schedule No. 3 the passage “Decree of the Council of Ministers on the Compensation of Meal Allowance of Employees on Official Assignment in Hungary” shall be replaced by “Government Decree on the Compensation of Meal Allowance of Employees on Official Assignment in Hungary”;

p) in Point 3 of Chapter I entitled “Revenues typically arising” of Schedule No. 10 the passage “(particularly the interest credited to the company account)” shall be replaced by “(particularly the interest credited to the domestic company account)”;

whereas, the provisions of Paragraphs *k)* and *m)* may be applied in connection with approved employee securities benefit programs registered before 1 September 2006, and the provision of Paragraph *g)* may be applied for determining the tax liabilities subsequent to the 2006 tax year.

(4) The provisions of Section 12 of the PIA, as established by this Act, shall also apply where the tax for 2006 is assessed by the tax authority.

(5) Subsections (4) and (7) of Section 69 of the PIA, as established and amended, respectively, by this Act shall be first applied in connection with the tax liability relating to entertainment and gifts provided for promotional purposes to tax years commencing after 31 August 2006.

(6) Effective as of 1 January 2007 Paragraphs *d)* and *n)* of Point 23 of Section 3 of the PIA, Paragraph *h)* of Point 72 of Section 3, in Paragraph *a)* of Subsection (1) of Section 7 the passage “pension and accident compensations paid to private individuals receiving pension benefits, and”, Paragraph *o)* of Subsection (1) of Section 7, Section 36/A and the preceding Title, Subsection (2) of Section 39, Paragraph *g)* of Subsection (2) of Section 71, Point 4.11 of Schedule No. 1, Point 5.4 of Schedule No. 1, in Point 5.5 of Schedule No. 1 the passage “employer’s reimbursement of extra costs incurred due to the transfer of wages, as prescribed by law, to a bank account opened at a financial institution, up to no more than 2,000 forints each year, and”, Point 7.6 of Schedule No. 1, Point 8.10 of Schedule No. 1, in Point 8.11 of Schedule No. 1 of the PIA the passage “employer’s reimbursement for moving expenses due to relocation in the interest of the employer, also” shall be repealed, however, these repealed provisions shall remain to be applied for 2006, furthermore, any private individual attending adult education who has the option to defer the tax allowance on the tuition as on 31 December 2006, shall be entitled to claim this allowance according to Section 36/A of the PIA in effect on 31 December 2006.

(7) Effective as of 1 January 2007, Section 38 of the PIA shall be repealed, whereby the provisions contained in Section 38 of the PIA in effect on 31 December 2006 may be applied within the time limit specified in Subsection (7) of Section 38, if repayment of the loan borrowed for housing purposes underlying the tax allowance has commenced before 1 January 2007.

(8) The provisions of this Act amending Points 4.7 and 8.3, and Paragraph *a)* of Point 8.19 of Schedule No. 1 and establishing Points 7.19 and 7.20 of Schedule No. 1 of the PIA shall enter into force on 1 January 2007; Paragraph *e)* of Subsection (1) of Section 28 of the PIA as amended by this Act, and the provision of Schedule No. 1 of this Act amending Point 6.5 of Schedule No. 1 of the PIA shall enter into force on 1 June 2007.

(9) Of the PIA:

a) Point 32 and Paragraphs *a)-b)* and *s)* of Point 72 of Section 3, as established by this Act;

b) Paragraph *k)* of Subsection (1) of Section 7;

c) Subsections (1)-(2) of Section 11, as established by this Act;

d) Paragraph *d)* of Subsection (1) of Section 28, as established by this Act;

e) Subsections (1)-(3) of Section 36, as established by this Act;

f) Subsections (2)-(5) of Section 44, as established by this Act;

g) Subsections (2)-(3) and (5)-(6) of Section 44/A, as established by this Act;

h) Subsection (17) of Section 49, as established by this Act;

i) Subsections (8) and (20) of Section 49/B, as established by this Act;

j) Subsections (4)-(5) of Section 71, as established by this Act;

shall enter into force on 1 January 2007 and shall be applied to income obtained and tax liabilities incurred subsequent to this date.

(10) The provisions of this Act for establishing Point 76 of Section 3 and for amending Subsection (17) of Section 28 and Section 44/B of the PIA shall enter into force on 1 September 2006 in accordance with Paragraphs *a)-d)* below.

a) Subsequent to 31 August 2006 these provisions:

aa) shall apply to individual retirement accounts which are treated as individual retirement accounts according to specific other legislation, and to the related transactions;

ab) may be applied, subject to the conditions laid down in Point 76 of Section 3 of the PIA, to individual retirement accounts managed under an agreement concluded before 31 August 2006 as defined in Point 76 of Section 3 of the PIA in effect on 31 August 2006 and which are treated as individual retirement accounts according to specific other legislation.

b) In connection with the individual retirement account statement concerning the payments made to an individual retirement account specified in Paragraph *ab)* before 1 September 2006 and to subsequent transfers, the relevant provisions of the PIA in effect on 31 August 2006 may be applied, whereby the tax authority shall effect any transfer of the sums instructed by the private individual only if the individual retirement account indicated carries the designation specified in Point 76 of Section 3, as established by this Act.

c) In connection with the individual retirement accounts specified in Paragraph *ab)*, Subsections (6)-(7) of Section 44/B of the PIA, as established by this Act, shall be applied if the funds are transferred as instructed to an individual retirement account that carries the designation specified in Point 76 of Section 3 of the PIA.

d) In connection with the individual retirement accounts specified in Paragraph *ab)*, the manager of the account shall notify the private individual affected by setting a deadline of maximum eight working days following the promulgation of this Act by means of certified mail with recorded delivery, or within three working days following the time of this Act entering into force to make the statement prescribed in Point 76 of Section 3 of the PIA, as established by this Act, and shall inform the private individual concerning the legal aspects of the said statement, with particular regard to the provisions contained in Subsection (10) of Section 44/B of the PIA, as established by this Act. Supported by a statement provided according to this provision the account manager may apply the designation "NYESZ-R" as of 1 September 2006. In the event of any delay on the part of either party, upon a petition for excuse the tax authority of jurisdiction by reference to the account manager's registered office may authorize the use of the said designation as of the above-mentioned date.

(11) Subsection (4) of Section 53 of the PIA as effective on 31 August 2006 or as established by this Act (either of the said provisions) may be applied to the 2006 and 2007 tax years at the discretion of the private individual.

(12) The provisions of Section 65 of the PIA, as established by this Act, shall apply - subject to the exceptions set out in Subsection (13) - to income obtained and tax liabilities incurred subsequent to 1 September 2006.

(13) On the strength of Subsection (12):

a) Subsection (2) of Section 65 of the PIA, as established by this Act, shall be first applied to the interest credited (paid) for the first full interest period commencing after 31 August 2006 in connection with deposit accounts, current accounts, bank card accounts and savings deposit opened before 31 August 2006;

b) in connection with Paragraph *bb)* of Subsection (1) of Section 65 of the PIA, as established by this Act, Subsection (2) of Section 65 of the PIA, as established by this Act, shall be applied if the securities were acquired after 31 August 2006;

c) with respect to income received by virtue of residual rights or as a lump sum life assurance payment referred to in Section 65 of the PIA, as established by this Act, Subsection (2) of Section 65 of the PIA, as established by this Act, shall be applied if the insurance contract was concluded after 31 August 2006;

d) in the cases not mentioned in Paragraphs *a)-c)*, provided that the transaction or contract underlying the interest income was concluded before 31 August 2006, the income first received after 31 August 2006 shall be governed by the provisions of Section 65 of the PIA in effect on 31 August 2006.

(14) By way of derogation from what is contained in Subsection (8) of Section 67/A of the PIA, as established by this Act, a private individual shall have the option to use - as regards the acquisition value - in connection with the transfer of securities in his possession on 31 August 2006, the closing price for the securities quoted on the last day of trading in the month of August of 2006.

(15) Subsection (18) of Section 77/C of the PIA, as established by this Act, shall be applied in connection with approved employee securities benefit programs registered subsequent to 31 August 2006.

(16) Effective as of 1 September 2006, of the provisions of Act CXIX of 2005 on the Amendment of Certain Acts Concerning Taxes, Mandatory Contributions and Other Payments to the Central Budget:

a) Subsections (5)-(7) of Section 178, Subsections (1)-(3), (5)-(8) and (11)-(12) of Section 179 shall be repealed as of 1 September 2006;

b) in the introductory sentence to Subsection (4) of Section 179 the passage "On 1 January 2007" shall be replaced by "On 1 September 2006";

c) in Subsection (9) of Section 179 the passage "December" shall be replaced by "August";

d) in Subsection (10) of Section 179 the passage "2007" shall be replaced by "2006".

(17) By way of derogation from Section 66 of the PIA, in connection with the distribution of after-tax profits for 2006 from the profit reserve, the tax liability on any dividend allocated and approved according

to the Accounting Act, and disbursed to the private individual in that year and verified as income, may be determined according to the provisions laid down in Paragraphs *a)-f)*.

a) The average daily:

aa) closing balance of cash flow,

ab) volume of cash transactions,

shall be determined for the period between 1 January and 31 August 2006.

b) If the amount under Subparagraph *aa)* is higher than twice the amount under Subparagraph *ab)*, the share of the private individual eligible for dividends consistent with the percentage of his capital contribution (stocks, business share, share notes, etc.) shall be calculated from the surplus, not to exceed the amount of dividend approved to be allocated from the profit reserve.

c) The tax on the dividend approved to be allocated from the profit reserve in the amount calculated according to Paragraph *b)* shall be 10 per cent.

d) The tax referred to in Section 66 of the PIA shall be based on the amount of dividend approved for the private individual with the amount specified in Paragraph *b)* deducted.

e) The payer shall assess the tax referred to in Paragraph *c)* separate from the tax referred to in Paragraph *d)*, for the date of acquisition of income, and shall issue a certificate to the private individual to verify it, subject to the following options:

ea) the private individual may pay the tax by the twelfth day of the month following the quarter that contains the date of acquisition of income as indicated in the payer's certificate, for which the tax authority may - upon request - authorize a deferment of five equal installments for the current tax year and the subsequent four tax years; or

eb) the payer shall deduct, declare and pay the tax, for which the tax authority may - upon request - authorize a deferment of five equal installments for the current tax year and the subsequent four tax years.

f) The private individual shall declare the tax base referred to in Paragraph *b)* and the tax referred to in Paragraph *c)* on the basis of the certificate received from the payer separate from the tax base referred to in Paragraph *d)* and form the tax on this tax base in the tax return filed for the tax year when established in accordance with the provisions applicable to dividends.

g) For the purposes of this Subsection:

ga) 'average daily closing balance of cash flow' shall mean the result of the total amount of daily closing balance of cash flow divided by the number of days based on which the average daily closing balance was calculated (except for the days without any cash movement); however, for the purposes of determining the average daily closing balance of cash flow, the amount of cash kept on hand in connection with financial service activities and gambling operations may be deducted from the average daily closing balance;

gb) 'average daily volume of cash transactions' shall mean the result of the total amount of daily balance of cash movements - whether positive or negative - (meaning the amount received minus the amounts paid out), divided by the number of days based on which the average daily balance was calculated.

(18) By way of derogation from Section 66 of the PIA, in connection with the distribution of after-tax profits for 2006 from the taxed profit of 2006, the tax liability on any dividend allocated and approved according to the Accounting Act, and disbursed to the private individual in that year and verified as income may be determined - in connection with the cancellation of any member loan existing on 9 June 2006 during the 2006 tax year - according to the provisions laid down in Paragraphs *a)-f)*.

a) the share of the private individual eligible for dividends consistent with the percentage of his capital contribution (stocks, business share, share notes, etc.) shall be calculated from the dividend allocated from the taxed profit for 2006, not to exceed the part of any member loan existing on 9 June 2006 that was cancelled during the 2006 tax year.

b) The tax on the dividend approved to be allocated in the amount calculated according to Paragraph *a)* shall be 10 per cent.

c) The tax referred to in Section 66 of the PIA shall be based on the amount of dividend approved for the private individual with the amount specified in Paragraph *a)* deducted.

d) The payer shall assess the tax referred to in Paragraph *b)* separate from the tax referred to in Paragraph *c)*, for the date of acquisition of income, and shall issue a certificate to the private individual to verify it.

e) The above is subject to the following options:

ea) the private individual may pay the tax by the twelfth day of the month following the quarter that contains the date of acquisition of income as indicated in the payer's certificate; or

eb) the payer shall deduct, declare and pay the tax.

f) The private individual shall declare the tax base referred to in Paragraph a) and the tax referred to in Paragraph b) on the basis of the certificate received from the payer separate from the tax base referred to in Paragraph c) and form the tax on this tax base in the tax return filed for the tax year when established in accordance with the provisions applicable to dividends.

(19) Subsections (17)-(18) of this Section shall enter into force on 1 September 2006.

Act CXXXI of 2006 on the Amendments of Financial Regulations

Section 148.

(1) Effective as on 1 January 2007:

a) in Point 18 of Section 3 of the PIA the passage “including private individuals registered as agricultural producers and” shall be replaced by “including private individuals registered as agricultural producers in accordance with the government decree laying down provisions for setting up a client register relating to clients involved in the implementation of the common agricultural policy of the European Union in Hungary and in the national agricultural support system and”;

b) in Point 75 of Section 3 of the PIA the passage “with the exception that” shall be replaced by “within the meaning of this provision tax assessment by the employer shall also be construed as a tax return, with the exception that”;

c) in Paragraph z) of Subsection (1) of Section 7 of the PIA the passage “social security contributions assumed by the employer under Section 30/A of” shall be replaced by “social security contributions assumed by the employer under Section 30 of”;

d) in Subsection (1) of Section 10 of the PIA the passage “or by the date on which a declaration serving as tax return or one that is required” shall be replaced by “or before the tax is assessed by the employer, or before the declaration is required”;

e) in Subsection (6) of Section 12 of the PIA the passage “the tax authority shall apply the tax allowances to which the private individual is entitled in the order indicated by the private individual” shall be replaced by “the tax authority shall apply the tax allowances to which the private individual is entitled in the sequence indicated by the private individual in his statement, or in the absence of such indication, in the order prescribed in this Act under the provisions governing tax allowances, or if the private individual has indicated to disregard any particular tax allowance, the tax authority shall proceed accordingly”;

f) in Subsection (2) of Section 40 of the PIA the passage “the right-holder in connection with the beneficiary dependent shall not be paid from the tax on the consolidated tax base according to the provisions of Subsections (3)-(11)” shall be replaced by “the right-holder in his tax return or tax assessment by the tax authority in connection with the beneficiary dependent shall not be paid from the tax on the consolidated tax base according to the provisions of Subsections (3)-(11), with the exception that within the meaning of this provision tax assessment by the employer shall also be construed as a tax return”;

g) in the introductory sentence to Subsection (1) of Section 44/A of the PIA the passage “for tax assessment by the tax authority” shall be replaced by “for tax assessment by the tax authority, or in their statement provided to the employer in the case of tax assessment by the employer”;

h) in Paragraph a) of Subsection (19) of Section 49/B of the PIA the passage “the number of calendar days the employees spent in employment” shall be replaced by “the number of calendar days the employees spent in employment during the tax year”;

i) in Subsection (7) of Section 74 of the PIA the passage “may opt to apply - for at least four consecutive tax years -” shall be replaced by “may opt - in his tax return - to apply”;

j) in Paragraph c) of Subsection (24) of Section 77/C of the PIA the passage “ends on the last day of the second calendar year following said initiation date;” shall be replaced by “ends on the last day of the second calendar year following said initiation date, or - if this is sooner - on the day when keeping the security on behalf of the private individual is no longer possible in consequence of the buyer exercising his purchase option afforded under Section 76/D of the Act on the Capital Market;”;

k) in Subsection (6) of Section 78/A of the PIA the passage “declaration serving as tax return or one” shall be replaced by “declaration made for tax assessment by the employer or one”;

l) in Paragraph a) of Point 9.5.1 of Schedule No. 1 of the PIA the passage “declared in his tax return or in the tax assessment” shall be replaced by “declared in his tax return or in the tax assessment by the employer or”;

m) in the last sentence of Chapter II of Schedule No. 2 of the PIA the passage “after the tax return for the year” shall be replaced by “after the tax return or the employer’s statement of accounts in connection with a simplified declaration statement, or tax assessment by the tax authority for the year”.

(2) Effective as on 2 January 2007:

a) in Subsection (1) of Section 11 of the PIA the passage “tax is assessed by the tax authority based on the private individual’s instruction” shall be replaced by “tax is assessed by the tax authority based on the private individual’s instruction, or by his employer”;

b) in Paragraph *a)* of Point 8.3 of Schedule No. 1 of the PIA the passage “or a close relative living in the same household” shall be replaced by “or a close relative of the employee”, and the passage “private individual drawing pension benefits and a close relative living in the same household” shall be replaced by “private individual drawing pension benefits and a close relative of this private individual”;

c) in Paragraph *c)* of Point 8.3 of Schedule No. 1 of the PIA the passage “an active or retired member of a trade union, the close relative of these persons living in the same household” shall be replaced by “any member of a business partnership who participates in person, a member of a cooperative, a member of a trade union, the retired members of these providers and the close relatives of these private individuals”;

d) in the passage following Paragraph *c)* of Point 8.3 of Schedule No. 1 of the PIA the passage “in connection with domestic accommodations hired for recreation purposes and for the related services as specified in specific other legislation” shall be replaced by “in connection with accommodations and services provided in connection with recreation, relaxation, amusement, health preservation, disease prevention, and sporting purposes, where the issuer of the vacation voucher shall specify the services accessible subject to the prior consent of the minister exercising founder’s rights and of the minister in charge of taxation”.

(3) On the 45th day following promulgation of this Act in Paragraph *c)* of Subsection (4) of Section 72 of the PIA the passage “any prepayment made” shall be replaced by “any prepayment or any sum provided on account for a period of less than thirty days”, and it shall apply to prepayments and sums provided on account after the time of this Act entering into force.

Section 170.

(1) Effective as of 1 January 2007 the following provisions of the PIA shall be repealed:

a) in Paragraph *b)* of Point 23 of Section 3 the passage “orphans’ pension,”;

b) in Paragraph *i)* of Point 23 of Section 3 the passage “Act on the Compensation of Victims of Political Persecution or to the”;

c) in Subparagraph *ab)* of Subsection (19) of Section 49/B the passage “military service,”;

d) in Paragraph *f)* of Subsection (2) of Section 77/A the passage “; furthermore, with respect to said other private individuals, in the case of transferring on the stock exchange, for valuable consideration, securities that had been obtained with the use of compensation notes, the tax liability for the earnings made by the transaction to the extent that it remains below the value of the compensation notes, including interest, that were used for the purchase of the securities in question shall be governed - depending on the type of transaction - by the provisions pertaining to income from capital gains or income from securities lending instead of the provisions pertaining to interest income, while the tax liability for the remaining portion of the earnings shall be subject to the provisions pertaining to interest income”;

e) Paragraph *a)* of Subsection (15) of Section 77/C.

(2) On the day following the promulgation of this Act Subsection (4) of Section 81 of the PIA shall be repealed.

Act XXXIX of 2007 on the Amendment of Tax Laws

Section 9.

(8) In the application of Subparagraph *bb)* of Paragraph *b)* of Subsection (8) of Section 49/B of the PIA, private entrepreneurs shall have the right to apply - in the 2007 tax year - the tax rate specified in Subsections (9)-(10) of Section 49/B of the PIA, taking into consideration the provisions of the relevant international agreement:

a) to the combined total calculated based upon the ratio (up to two decimal places) of the number of calendar days from the first day of the tax year up until the 30th of June relative to the days of operation during the entire tax year, from the entrepreneurial tax base established according to Paragraph *a)* of Subsection (8) of Section 49/B of the PIA for the whole 2007 tax year, and the ratio (up to two decimal places) of the number of calendar days from the first day of July up until the last day of the tax year relative to the days of operation during the entire tax year, from the income (profit) minimum established according to Subparagraph *bb)* of Paragraph *b)* of Subsection (8) of Section 49/B of the PIA for the whole 2007 tax year; or

b) to a tax base comprising the combined total of:

ba) the entrepreneurial tax base established according to Paragraph *a)* of Subsection (8) of Section 49/B of the PIA for the accounting period between 1 January and 30 June 2007; and

bb) the sum that is in excess of the income (profit) minimum for the accounting period between 1 January and 30 June 2007, from the income (profit) minimum determined on the basis of the annual account filed for the 2007 tax year according to Subparagraph *bb)* of Paragraph *b)* of Subsection (8) of Section 49/B of the PIA.

(9) If applying Subparagraph *bb)* of Paragraph *b)* of Subsection (8) for determining the tax liability for 2007, the private entrepreneur shall:

a) maintain his records to contain adequate facilities for the production of any data and information which would be relevant for the assessment and control of his tax liability;

b) decide on the application of Subparagraph *bb)* of Paragraph *b)* of Subsection (8) of Section 49/B of the PIA based on the amount of income calculated according to Subsections (1)-(5), less the expenses deducted according to Schedules Nos. 4 and 11, as established for the period between 1 July and the last day of the tax year relying on the records for 2007, or the income (profit) minimum specified in Subsection (23) of Section 49/B of the PIA.

Act CXXVI of 2007 on the Amendment of Tax Laws

Section 468.

(1) The provisions of this Act for the amendment of the PIA - in due observation of what is contained in Subsections (2)-(9) - shall be applied for income earned and tax liability incurred subsequent to the date of entry into force.

(2) The tax liability on any unemployment benefits, incentive benefits provided to job seekers, unemployment aid provided prior to retirement (advance pension benefits) on the basis of the Job Assistance and Unemployment Benefits Act, if established before 1 November 2005 and paid subsequent to 1 November 2005, and if established after 1 November 2005 according to the provisions in force on 31 October 2005, shall be established according to Points 21 and 23 of Section 3 of the PIA effective as on 31 October 2005.

(3) The following provisions of the PIA may also be applied to the tax liability of incomes earned after 1 January 2007:

a) Point 34 of Section 3, as amended by this Act, and Paragraph *e)* of Point 72 of Section 3, as amended by this Act;

b) Paragraphs *e)* and *i)* of Subsection (1) of Section 7, as amended by this Act;

c) Paragraph *b)* of Subsection (2) of Section 77/A, as amended by this Act;

d) Point 7.7 of Schedule No. 1, as amended by this Act.

(4) Private individuals may apply Paragraph *a)* of Point 72 of Section 3 of the PIA, as amended by this Act, to indemnification payments paid for the period between 31 December 2006 and 1 January 2008 - in compliance with the amended provisions - in their tax returns filed for 2007.

(5) Subsection (1) of Section 39 of the PIA, as amended by this Act, shall also apply when filing the tax return for 2007.

(6) Any private entrepreneur whose operating license was granted under the Government Decree on Retail Establishments and on the Conditions for Conducting Business Away from a Commercial Establishment, may apply the provisions contained in Subsection (4) of Section 53 of the PIA, as established by this Act, when selecting the taxation method for 2007.

(7) Private entrepreneurs may apply the provisions contained in Subsection (4) of Section 53 of the PIA, as effective on 31 August 2006 for the last time in the tax year when their operating license was modified in accordance with the Government Decree on Retail Establishments and on the Conditions for Conducting Business Away from a Commercial Establishment.

(8) By way of derogation from what is contained in Subsection (3) of Section 60 of the PIA, in connection with the transfer during the 2008-2010 period of a real estate property that was acquired before 1 January 2008 the time of acquisition of construction of a new building or increasing the floor space of an existing one may be determined, at the private individual's choice, according to the provisions of Section 60 of the PIA as effective on 31 December 2007, however, if the transfer took place under Paragraph *a*) of Subsection (6) of Section 62 of the PIA, on condition that the amount of income shall be determined - instead of the provisions contained therein - according to Subsection (4) of this Section.

(9) The income from the transfer of a real estate property or right before 1 January 2008 shall be subject to the provisions of Subsections (1)-(5) of Section 63 of the PIA as effective on 31 December 2007, if the private individual in question claims any residential housing allowance.

(10) The provisions of Subsection (2) of Section 67/A of the PIA as effective on 31 December 2007 shall apply if the valuable consideration defined in Paragraphs *d*)-*e*) of Subsection (2) of Section 77/A of the PIA as effective on 31 December 2007 shall not be treated as income from the face value of the securities.

(11) The provisions contained in Paragraphs *a*) and *b*) of Subsection (8) of Section 77/C of the PIA, as amended by this Act, may be applied for the 2007 tax year as well, if they afford better overall terms for the private individual.

(12) The provisions of Point 4.7 of Schedule No. 1 to the PIA, as amended by this Act, may be applied as of 1 September 2006, if they afford better overall terms for the private individual.

Act LXXXI of 2008 on the Amendment of Certain Acts Concerning Taxes and Mandatory Contributions

Section 257.

(1) The provisions of this Act amending the PIA shall be applied, with due regard to what is contained in Subsections (2)-(19), to income gained and tax liabilities incurred subsequent of the date of entry into force.

(2) The provisions of this Act pertaining to simplified tax returns to be filed with the tax authority's assistance, to tax returns to be prepared without assistance from the tax authority, and to tax assessments prepared by the employer shall also apply to tax liabilities for the 2008 tax year as well.

(3) The provisions of Subsections (1) and (2) of Section 44/B of the PIA, as amended by this Act, may also be applied in respect of exercising the right of disposition relating to 2008 as well.

(4) The provision contained in Point 3.3 of Schedule No. 1 to the PIA, as amended by this Act, may also be applied in respect of prizes awarded before the entry into force of this Act.

(5) The private individuals entitled to defer the tax allowance on the costs of training or the tuition of adult education pursuant to the provisions of the PIA in effect prior to 1 January 2009 - not including where the private individual's entitlement to claim tax allowance is granted under the transitional provisions of the amendments of the said regulations - shall be entitled to defer the exemption base in accordance with Sections 35 and 37 of the PIA, in effect as of 1 January 2009 relating to any portion of the costs of education for which no tax allowance had been deferred yet.

(6) In connection with any special allowance claimed in respect of recurrent donations pursuant to Section 41 of the PIA in effect prior to 1 January 2009, if - subsequent to 31 December 2008 - the private individual fails to fulfill any of his obligations set forth in a contract on recurrent donation due to any reason within his control, the special allowance claimed under this contract for the previous three years shall be repaid in double the amount at the time of filing the tax return prepared without assistance from the tax authority for the year in question. No repayment shall apply, however, if the private individual's failure to fulfill his contractual obligations occurs due to his death, or to any reasons beyond his control, such as in particular, if the other party to the contract is canceled from the register of public-benefit organizations or if dissolved without legal successor.

(7) In connection with any insurance benefits claimed pursuant to Section 42 of the PIA in effect prior to 1 January 2009, the provisions contained in Subsections (3)-(4) of this Section shall apply after 31 December 2008 as well.

(8) Where a private individual is entitled to several different types of tax allowances to be deducted from his taxes for 2008, they shall be considered claimed in the tax return filed without assistance from the tax authority or in the tax assessment prepared by the employer in the sequence the private individual has indicated, or failing this, and in a simplified tax return filed with the tax authority's assistance in the following sequence, up to the relevant limits prescribed for tax deductions:

1. carry-over housing allowance,
2. personal allowance,
3. allowance for temporary employment,
4. the allowance on any amount paid by a private individual on his own behalf, or by a private individual who is not a private entrepreneur on behalf of another person, for the purpose of establishing service time on which pension benefits shall be based, or establishing service time on which pension benefits shall be based and income to be included in the pension base, in accordance with an agreement on social security benefits and based on the provisions of the Act on the Eligibility for Social Security Benefits and Private Pensions and the Funding for These Services,
5. the allowance on any amount paid by a private individual on his own behalf, or by a private individual who is not a private entrepreneur on behalf of another person, on the basis of an agreement for the payment of membership fees based on the provisions of the Act on Private Pension and on Private Pension Funds,
6. the allowance on any amount paid by a private individual to a private pension fund in supplement of his own membership fee,
7. the allowance on any amount paid by a private individual to an institution for occupational retirement provision in supplement of the employer's contribution,
8. in connection with a student relationship specified in the Act on Higher Education, the allowance on the costs of education (tuition, expense reimbursement, other charges) paid in the tax year,
9. the allowance deferred from the costs of training or the tuition of adult education that were paid during any tax year (tax years) in respect of the private individual's student relationship or attending an adult education course, following the year when the scholarship or education is terminated for the first time during the tax year or during the five-year period preceding the tax year,
10. the allowance on charitable donations and recurrent donations,
11. insurance allowance,
12. small-scale agricultural producers' allowance,
13. family tax allowance,
14. other.

(9) Paragraph *f*) of Subsection (6) of Section 49/B of the PIA, as amended by this Act, and Subsection (16) of Section 49/B of the PIA, as amended by this Act, shall apply to funds tied up pursuant to Paragraph *f*) of Subsection (6) and to Subsection (16) of Section 49/B of the PIA, in effect on 31 December 2008, as well as to any part of such funds not yet released from a tied-up account, with the exception that the initial year of the tied-up account shall be the year when the tax return containing the education of income is filed.

(10) Subsections (21) and (22) of Section 49/B of the PIA, as amended by this Act, shall apply to the sums mentioned in Subsections (21) and (22) of Section 49/B of the PIA in effect as on 31 December 2008, with the exception that the initial year of the tied-up account shall be 2009.

(11) Subsection (7) of Section 49/C of the PIA, as amended by this Act, may be applied to the entrepreneurial dividend base established for 2008.

(12) Where a private individual transfers any investment certificate acquired by 1 September 2006 in a stock exchange transaction after 31 December 2007, the provisions of Section 65 of the PIA in effect on 31 August 2006 may be applied to the consideration received.

(13) Point 4.12 of Schedule No. 1 to the PIA, as amended by this Act, may be applied to the tax liability on any income earned after 1 January 2008.

(14) The provisions of Paragraph *p*) of Subsection (1) of Section 7 of the PIA, as amended by this Act, shall apply in the cases defined in Subparagraphs *pa*)-*pb*), where:

a) the contributions provided for schooling, where training began before 1 January 2006, shall be applied as an item not comprising part of the tax base;

b) the part of the contributions provided for schooling, where training began after 31 December 2005 and before 1 February 2009, shall be applied - by way of derogation from the relevant regulation - as an item not comprising part of the tax base up to 400,000 forints.

(15) Subsection (1) of Section 56 of the PIA, as amended by this Act, shall apply in connection with the expenses incurred after 31 January 2009.

(16) The provision contained in Point 1.1 of Schedule No. 1 to the PIA, as amended by this Act, may also be applied to any widow's pension due in respect of a child entitled to orphan's pension that was granted before the entry of this Act into force, after 31 December 2006.

(17) Private individuals shall be entitled to claim the tax allowance under Subsection (2) of Section 63 of Act LXXXIII of 1996 on the Amendment of Act CXVII of 1995 on Personal Income Tax, in effect on 30 June 2007, from the tax due for 2009 for the last time.

(18) The provision contained in Subsection (7) of Section 302 of Act XLII of 2002 on the Amendment of Certain Acts Concerning Taxes, Mandatory Contributions and Other Payments to the Central Budget, repealed by this Act, shall not apply in respect of the tax return filed for 2008.

(19) By way of derogation from Section 66 of the PIA, upon the distribution of the profit after taxes for the 2008 tax year, from the dividend established and approved according to the Accounting Act, and paid to a private individual member of a business association during the year when established - provided that the payment is made within thirty days following the deadline for having the annual report deposited - tax liability on the sum paid from the after-tax profit for the 2008 tax year, if the member loan is cancelled during the tax year, shall be calculated according to Subparagraphs *a)-f)*.

a) The fraction of all dividends payable from the after-tax profit for the 2008 tax year, corresponding to the cancelled member loan which applies to the private individual receiving such dividends shall be calculated in the percentage of said private individual's holdings (stocks, business share, share notes, etc.).

b) The tax on the amount approved as dividend and shown as income for the year when established, and corresponding to the portion referred to in Paragraph *a)* shall be 10 per cent.

c) The base for the tax specified in Section 66 of the PIA shall comprise the dividend shown as the member's income for the year when established, less the sum specified in Paragraph *a)*.

d) The payer shall assess the tax according to Paragraphs *a)-c)* inside the deadline prescribed for the payment of dividends, and shall make a certificate for the member affected on the tax mentioned in Paragraph *b)*, separate from the tax described in Paragraph *c)*.

e) In respect of the tax described in Paragraph *b)* the following option shall be available:

ea) the tax may be paid by the private individual based on the certificate the payer has provided, by the 12th day of the month following the quarter in which it was issued, or

eb) the payer shall deduct, declare and pay the tax,

with the exception that Section 66 applies to the dividend described in Paragraph *c)* otherwise.

f) The private individual, relying on the certificate the payer has provided, shall declare - according to the regulations on dividends - the tax base specified in Paragraph *a)* and the tax payable according to Paragraph *b)*, separate from the tax base specified in Paragraph *c)* and from the tax payable, in the tax return prepared without assistance from the tax authority for the tax year.

g) In connection with the tax liability satisfied according to Paragraphs *a)-f)*, enrichment cannot be presumed in respect of the cancelled member loan of the private individual affected.

(20) The assets acquired by the business association stemming from the member loan cancelled under Subsection (19) shall be exempt from the duty payable on gifts.

Act XXXV of 2009

Section 61.

(1) The provisions of this Act for the amendment of the PIA - in due observation of what is contained in Subsections (2)-(9) - shall apply to the income earned and tax liability incurred subsequent to the date of entry into force.

(2) The provisions contained in Section 30 and Subsection (7) of Section 50 of the PIA, as amended by this Act, shall apply to income earned after 1 January 2009 and to the tax liability on such income.

(3) The provision contained in Point 1.3 of Schedule No. 1 to the PIA, as amended by this Act, shall apply to income earned after 1 January 2009 and to the tax liability on such income.

(4) When using the carry-over method described under Section 47 of the PIA, in connection with the income earned after 30 June 2009 the estimated tax amount shall be calculated in accordance with the tax table in effect on 1 July 2009 as per Section 30 of the PIA.

(5) The provisions set out in Section 48 of the PIA shall apply in 2009 in due consideration of what is contained in Paragraphs *a)-b)* below.

a) For determining the tax advance on any income earned during the period of 2009 following 30 June (hereinafter referred to as “second half”) in the form of wages - for members of business partnerships and civil law companies, income paid in respect of or in connection with personal participation and recognized as income from activities other than self-employment -, in the application of Subsections (1)-(9) and (16) of Section 48 of the PIA, the estimated amount of the tax (including the estimated amount of the tax on non-taxable emoluments calculated based on the tax table) shall be calculated in accordance with the tax table in effect on 1 July 2009 as per Section 30 of the PIA.

b) For determining the tax advance on any income paid (disbursed) during the second half of 2009 under Subsection (10) of Section 48 of the PIA, the estimated amount of the tax - in the process of assessment described therein - shall be calculated in accordance with the tax table in effect on 1 July 2009 as per Section 30 of the PIA, with the exception that the day when the transfer or postal dispatch is effected shall be recognized as the time of payment.

(6) Employers and payers of wages, and business partnerships and civil law companies shall determine the tax advance on any income paid during first half of 2009 and recognized as income from activities other than self-employment - taking into account the deductions mentioned in Subsections (12)-(14) of Section 48 of the PIA - according to the rules on establishing tax advance pertaining to income earned during the second half of 2009 as well, in accordance with Paragraph *a)* of Subsection (5) of this Section. If the amounts of tax advances calculated as per the above are below the amounts of tax advance actually deducted during the first half of 2009, the difference shall be taken into account - until depleted, or for the last time from the tax advance on incomes received for the month of December - as a deduction from the tax advances on incomes received for the second half of 2009 in the sequence following the deductions specified in Subsections (12)-(14) of Section 48 of the PIA.

(7) The provisions relating to the statements prescribed in Subsections (2), (6) and (7) of Section 48 of the PIA, as amended by this Act, shall initially apply to the non-taxable emoluments received after 31 August 2009.

(8) The provisions contained in Subsection (1) of Section 55 of the PIA shall apply to 2009, where the tax on the calculated tax referred to in Section 53 of the PIA shall be determined in accordance with the tax table in effect on 1 July 2009 as per Subsection (2) of Section 30 of the PIA.

(9) The maternity support provided in connection with any child(ren) born before 1 April 2010 shall be governed in respect of tax liability by Point 72 of Section 3 of the PIA as effective on 31 August 2009 and by Point 1.1 of Schedule No. 1 to the PIA as effective on 31 August 2009.

Act LXXVII of 2009

Section 206.

(1) The provisions of this Act for the amendment of the PIA - in due observation of what is contained in Subsections (2)-(16) - shall apply to income earned and tax liability incurred subsequent to the date of entry into force.

(2) Having regard to training provided within the regular school system between 31 January 2009 and 1 January 2010, Paragraph *p)* of Subsection (1) of Section 7 of the PIA in effect on 31 December 2009 shall apply.

(3) Having regard to training provided within the regular school system that started before 1 February 2009, Subsection (14) of Section 257 of Act LXXXI of 2008 on the Amendment of Certain Acts Concerning Taxes and Mandatory Contributions shall apply.

(4) Having regard to training provided outside the regular school system, that started before 1 January 2010, Paragraph *p)* of Subsection (1) of Section 7 of the PIA in effect on 31 December 2009 shall apply.

(5) If the private individual's employment is terminated before the period to which the provisional right pertains expires, hence losing eligibility for benefits from the institution for occupational retirement provision, and a certain part of the employer's contribution had to be treated as income, the private

individual may apply Paragraph *d*) of Subsection (2) of Section 7 of the PIA in effect on 31 December 2009 to that part of the employer's contribution that was treated as income.

(6) Section 12 and Paragraph *m*) of Subsection (1) of Section 13 of the PIA, as amended by this Act, shall apply in connection with the fulfillment of tax liabilities for 2009 as well.

(7) Where a private individual is entitled to defer the exemption base, as part of the consolidated exemption base, according to the relevant provisions of the PIA in effect on 31 December 2009 in connection with tuition or the costs of adult education, Section 35 and Subsections (2)-(3) of Section 37 of the PIA shall remain to apply after 31 December 2009 in respect of that part of the cost of education for which no deferred tax allowance has been claimed before, however, this provision shall not concern the provisions contained in Subsection (5) of Section 257 of Act LXXXI of 2008.

(8) In connection with the insurance benefits recognized as part of the consolidated exemption base under Paragraph *h*) of Subsection (3) of Section 35 of the PIA, as effective on 31 December 2009, Subsections (2)-(3) of Section 38 of the PIA, as effective on 31 December 2009, and the provisions of Schedule No. 7 to the PIA, as effective on 31 December 2009, shall remain to apply past 31 December 2009 as well, however, this provision shall not concern the provisions contained in Subsection (7) of Section 257 of Act LXXXI of 2008.

(9) In connection with the household benefits recognized as part of the consolidated exemption base under Paragraph *a*) of Subsection (3) of Section 35 of the PIA - subject to safekeeping requirements relating to the underlying invoices according to the provisions of the RTA on term of limitation - Paragraph *a*) of Subsection (2) of Section 35 of the PIA, as effective on 31 December 2009, shall not apply in connection with the tax returns filed for 2009.

(10) In connection with the special allowances claimed on long-term donations under Section 41 of the PIA as effective on 1 January 2009, and with the allowances claimed as part of the consolidated exemption base under Section 35 and Section 37 of the PIA as effective on 31 December 2009, if the private individual fails to fulfill any of his obligations set out in a contract on long-term donations after 31 December 2009, the allowance claimed under such contract need not be repaid.

(11) Subsection (2) of Section 44/A of the PIA, as amended by this Act, shall also apply to proceedings in progress at the time of entry into force, with the exception that if the voluntary mutual fund statement has been carried out before the effective date of the instruction, it shall be construed as carried out according to the instruction.

(12) Funds earmarked as provision for developments and renovation(s), which is to be deducted from the entrepreneurial income, may be released by the end of the fifth tax year following the time of registration, if other legal requirements are satisfied, with the exception that any reference made in Subsection (16) of Section 49/B of the PIA to three and third tax years, it shall be understood as five and fifth tax years, and any reference made to fourth tax year shall be understood as sixth tax year.

(13) Subparagraph *ak*) of Paragraph *a*) of Subsection (9) of Section 67 of the PIA, effective as of 1 January 2009, may be applied for determining the acquisition value of securities transferred after 31 December 2008, and also in the case where the second sentence of Subsection (1) of Section 204 of Act LXXXI of 2008 on the Amendment of Certain Acts Concerning Taxes and Mandatory Contributions applies.

(14) The sum recognized as other income under Subsection (18) of Section 28 of the PIA effective as of 1 September 2009 shall be first applied for determining the tax advance base for the payments recorded for the month of September 2009 (wages, sums paid by business associations and civil law associations to their participating members shown under income from activities other than self-employment).

(15) Vacation vouchers issued before 31 December 2009 may be used according to the regulations in force on 31 December 2009, even if their validity period is extended.

(16) As regards the tax-exempt benefits under Points 8.12 and 8.28 of Schedule No. 1 to the PIA in effect on 31 December 2009, in respect of the private individuals with entitlement to such benefits according to the provisions in force at that time, these benefits shall be tax exempt insofar as the underlying relationship remain in effect.

(17) Paragraph *a*) of Subsection (22) of Section 77/C of the PIA, as amended by this Act, shall also apply to programs already registered at the time of entry into force.

Schedule No. 1 to Act CXVII of 1995

Tax-Exempt Revenues

- 1) The following social and other benefits shall be tax-exempt:
 - 1.1. income supplements (except the income supplementing allowance provided in connection with scholarships) provided by the state social welfare or social security system, orphan's pension, spousal supplement, income supplement provided for the spouse, annuities received pursuant to the Act on the Conversion of Compensation Notes into Life Annuity, severance pay received due to losing eligibility for widow's pension, social aid, rental allowance, and widow's pension due in respect of a child entitled to orphan's pension;
 - 1.2.
 - 1.3. social welfare provided by the state social welfare system, local self-governments, the church or religious charitable organizations; cash benefits, child-raising benefits and special provisions paid to foster parents in addition to child-raising benefits and post-care assistance provided on the basis of the Act on the Protection and Guardianship of Children; temporary aid, funeral assistance, subsidies for home utilities, debt servicing, social welfare for the elderly, regular social assistance and stand-by assistance, personal aid to the blind and disability benefits provided by local authorities pursuant to the Social Administration and Social Welfare Benefits Act; the transportation allowance granted to severely handicapped private individuals on the basis of legal regulation; aid to the mentally handicapped; veterans subsidies; national welfare benefits paid on the basis of the National Care Act; the funeral aid granted by an employer or interest representation organization to the spouse of the deceased or to a relative of the deceased in the direct line of descent or ascendance; and the social welfare aid provided by a social welfare organization performing mutual assistance and other duties or a mutual aid society with the understanding that, for the purposes of this provision, the provision of supplementary assistance in addition to the benefits listed in the Act on the Eligibility for Social Security Benefits and Private Pensions and the Funding for These Services shall be regarded as performance of mutual assistance duties;
 - 1.4. fees or reimbursements received for fostering and raising a minor - under institutional or state care - in a family, or fees or reimbursements received from a therapeutic institute for providing outside nursing care for a patient;
 - 1.5. aid for entering society upon being released from institutional or state care, as defined by legal regulations;
 - 1.6. the income of detainees paid during the period of detention for employment provided by the penitentiary institution in accordance with the Act on Bodies of Corrections and Penal Institutions, and the support provided by the penitentiary institution, as part of its special duties, to the detainee and the social aid provided to a socially needy private individual just released from prison.
 - 1.7.
- 2) The following shall be tax-exempt in connection with housing:
 - 2.1. housing subsidies, meaning:
 - 2.1.1. the subsidies granted on the basis of the government decree on subsidies for housing purposes, including the housing subsidies provided under local government regulation adopted on the strength of the aforementioned government decree and promulgated before 31 December 2006;
 - 2.1.2. any portion of loans granted for housing purposes which is cancelled by virtue of an act or a legal regulation enacted under authorization by law;
 - 2.1.3. housing subsidies provided by the local governments of communities, on condition that the local government has provided the subsidies:
 - a) to underprivileged families consistent with the definition of being underprivileged laid down in its decree; and
 - b) for the objectives deemed as legitimate appropriation - as specified in the Act on the Budget of the Republic of Hungary - provided to local governments of communities under the title of budgetary contribution for the citizenry to obtain proper housing.
 - 2.2. compensation for relinquishing tenancy rights in a residential suite owned by a Local self-government or by the state (including the amount of money paid to co-tenants leaving a rented apartment following a court decision, as compensation for tenancy rights), as well as the compensation paid by a local authority to the tenant in lieu of providing a substitute dwelling, in the case of the termination of forced tenancy, as defined in the Act on Certain Regulations Relating to the Rental of Homes and Premises, and the Alienation Thereof;

- 2.3. reimbursement in consideration of (repair and maintenance) work on a state or local self-government-owned residential suite, being the responsibility of the lessor, carried out personally by the tenant;
- 2.4. income from the redemption by the spouse of real estate, movable property or rights in immovables, following the termination of community property by marriage;
- 2.5. unless otherwise prescribed, support provided from any sub-system of the central budget as specified in an act or government decree, which affects a large percentage of the population (including in particular the public utility development support and preferential supply of natural gas and district heat assistance);
- 2.6. state subsidies granted pursuant to the Act on Home Savings and Loan Associations and the interest paid (credited) on such subsidies and on the home savings account;
- 2.7.

3) The following public service contributions shall be tax-exempt:

3.1. amounts paid to private individuals by nonprofit companies, primary nonprofit companies and public foundations in accordance with the objectives laid down in the charter, disbursed for studies pursued in educational institutions, research, foreign study trips (as scholarships), as well as amounts paid as social aid to indigent persons, and such amounts paid to the participants of students' or other leisure/recreation sports, not exceeding 500 forints per occasion;

3.2. payments received by a private individual

3.2.1.

3.2.2. from a sports foundation described in the Act on Sports, which is not engaged in business activities, if the sports foundation has (did) not issue a statement of verification on the payment to the association (non-cash contribution) to provide eligibility for tax credit or tax base reduction;

3.2.3. to the debit of the special allotment determined in the budget act, based on the Act on the Use of a Specified Amount of Personal Income Tax in accordance with the Taxpayer's Instruction,

3.2.4. to the debit of funds disbursed on the basis of obligations of the Republic of Hungary stemming from an international agreement, such funds originating from international aid and verified with the relevant registration;

3.3. revenues acquired in kind by a private individual for reasons of public commitment from a nonprofit or primary nonprofit company or non-governmental organization, foundation or public foundation, and designated in accordance with the objectives laid down in the statutes, furthermore, any prize established before 1 January 2008 and awarded upon public nomination in a public ceremony to private persons who distinguished themselves and excelled in the fields of Hungarian culture, sciences, art and sports;

3.4. revenues addressed to the founder, sponsor or patron, with the exception of revenues acquired in kind and connected directly to his treatment, shall not be tax-exempt neither in the cases described in Points 3.1-3.3, as well as the revenues obtained, on any legal grounds, by a private individual in an employment relationship, other work related relationship, or other contractual relationship indicated in the Civil Code with the organization or with the organizer of the assumption of liability in the public interest;

4) The following shall be tax-exempt in connection with certain specific activities:

4.1. the daily allowance paid by international organizations with diplomatic privileges and immunities granted as defined in treaties;

4.2. scholarships received from abroad in view of staying abroad, whereby the amount of money paid by the foreign payer (company, private individual, etc.) for studies pursued in a foreign educational institution, or for research work performed in a foreign research facility shall be understood as such scholarship;

4.3. income received by a visiting professor, of non-Hungarian citizenship, who is engaged in educational and pedagogical activities in Hungary by virtue of an international agreement;

4.4. income received by a student, of non-Hungarian citizenship, of foreign secondary school or institution of higher education for work performed within a domestic apprenticeship program;

4.5.

4.6. cash awards in connection with the Nobel Prize, the EU Descartes Prize in its physical form, the Kossuth Prize, the Széchenyi Prize in its physical form; the Laurel Wreath of the Republic of Hungary; the Medal of Honor and the Cross of the Order of Merit of the Republic of Hungary in its physical form; Medal of the Republic of Hungary for Artistic Excellence, Medal of the Republic of Hungary for Artistic Distinction, the Master of Folk Art Prize in its physical form; furthermore, artistic and professional awards by the minister in charge of cultural affairs in their physical form; the Commemorative Medal for Life Saving in its physical form; medals provided in connection with the first through sixth-place finishes in the Olympic Games and at other worldwide events for disabled athletes (Para-Olympic Games, World Games

for the Deaf, Special Olympics, World Games for Transplant Patients) in their physical form; and, furthermore, from the cash awards granted with commemorative gifts (ornamental daggers, rings, etc.) awarded by the Government, the Prime Minister, the head of the Prime Minister's Office, the minister in charge of law enforcement, the minister in charge of defense, and the minister in charge of penal administration, the minister supervising the Hungarian Customs and Finance Guard, the minister in charge of supervising the national security services, minister in charge of emergency response and disaster relief operations; the fraction of such cash awards below one-tenth of the cash award associated with the Kossuth Prize;

4.7. a) any scholarship and other benefits provided by the minister in charge of education within the framework of bilateral and multilateral international conventions subject to the criteria decreed by the Government upon recommendation by the Hungarian Scholarship Committee or the Office of the Hungarian Scholarship Committee;

b) any support or benefit provided according to the Higher Education Act and specific government decree(s) on the benefits provided to students of institutions of higher education to:

ba) Hungarian students attending foreign institutions of higher education,

bb) foreign students;

c) any scholarship and other benefits provided to resident and nonresident private individuals within the framework of bilateral and multilateral international agreements, and within the framework of international cultural, educational, research and development programs to promote mobility programs financed from Community funds and by the national budget;

d) any scholarship, support or benefit provided to foreign educators and researchers within the framework of education and research programs made available to ethnic Hungarians living in minority;

in either case, on condition that it is not paid as remuneration for activities;

4.8. any valuables given directly or indirectly by a private individual to ecclesiastical personnel for performing religious ceremonies and providing church services - such as, in particular, collection money, church maintenance contribution, donation (exclusive of the cash donations given to the church under the title of public donation), and income supplements and other benefits of the kind provided to ecclesiastical personnel by the central budget; the clergyman or the church organizational unit shall keep separate records on the tax-exempt income and revenue received as described above from otherwise taxable income; for the purposes of this provision, the person who receives regular monthly remuneration from the given church for fulfilling church duties for such church shall also be regarded as ecclesiastical personnel;

4.9. sums accounted for as wages, fees, or honorarium from the revenues of a charity function, if such sum is offered by the recipient private individual for a cause of public interest, with the understanding that it shall not be regarded as a public donation with eligibility for tax reduction;

4.10. bonuses awarded to patients in medical and social institutions for jobs done in work therapy;

4.11.

4.12.

4.13. the work rehabilitation allowance under Act III of 1993 on Social Administration and Social Welfare Benefits;

5)

6) The following shall be tax-exempt within the categories of indemnification and assuming risk:

6.1. monetary aid or supplies provided to the victims of natural disasters (including the cases of damage caused to residential suites and residential buildings by the use of open-hearth slag) or catastrophic events under the conditions prescribed by legal regulation and/or from public donations (including, in particular, the restoration or reconstruction of residential buildings); furthermore, support payments and indemnification (including the purchase price of real estate bought for public purposes serving as basis for expropriation) received on the basis of liability defined by the law; compensation and indemnity payments, except for compensation paid as an income supplement; and financial aid provided to victims of crime by the victim protection service;

6.2. the regular allowance established prior to 1 January 1988 in compensation for accident and damages suffered (including lump sum redemption), unless the corresponding sum was subsequently raised on the basis of gross average earnings;

6.3. premiums paid for life assurance policies covering the risk of accidental death, injury liability, or medical care insurance for full and permanent incapacity to work, and the premium for liability insurance covering risks for payment of premiums only;

6.4. the amount:

a) credited to the individual account of a member of a voluntary mutual insurance fund as the return on hedged investments, including the sums credited on the basis of valuation differentials,
b) credited by the employer sponsored pension institution to the private individual as a capital increment;

6.5. the amount paid (provided):

a) by a voluntary mutual pension fund:

aa) as pension payments (supplementary pension),

or

ab) to a beneficiary;

b) by an employer sponsored pension institution:

ba) as pension payments,

or

bb) to a beneficiary;

c) to a private individual from his/her individual retirement account by the institution where the account is held, that is treated as pension benefit according to specific other legislation;

d) by a voluntary mutual insurance fund (not including voluntary mutual pension funds) as auxiliary health-care services and supplementary mutual assistance services as specified in the relevant acts; in connection with Subparagraphs *aa)* and *ba)*, on condition that:

1. membership of the person to whom it is paid in the fund (current or previous) was created at least three years before the year when payments are made, or during the first three years of receiving payments the amount of benefit is not reduced by more than fifteen per cent of the previous year's total remittance on a yearly average,

or

2. the person to whom it is paid was declared an invalid, hence gaining eligibility for such benefits;

6.6. payments received from insurers under Point 6.8 in the form of:

a) settlement payments [with the exception of payments for reimbursement for loss of income as part of liability insurance coverage, not including, furthermore, payments received under a life assurance or pension insurance contract, other than those mentioned in Paragraphs *b)*-*c)*, and the value of insurance services, in respect of which the private individual claimed the insurance premium granting eligibility thereto as a cost],

b) death grants, payments under accident and health insurance policies,

c) pension payments provided under pension insurance contract after the third anniversary of the insurance contract;

6.7. for the purposes of Subpoints 6.1 and 6.6 the following shall not be considered as income supplement compensation or liability insurance payments for lost income:

a) the amount paid in compensation for support payments prescribed on the basis of legal regulation,

b) indemnity payments paid to cover the expenses of the aggrieved party, even if such expenses are incurred in connection with the acquisition of income,

c) the expense reimbursement portion in respect of a payment (or its lump sum redemption) that covers damages and is paid in lieu of an expense reimbursement or income.

6.8. for the purposes of Point 6.6 'insurer' shall mean an insurance company established in Hungary or having a branch in Hungary as defined in the Act on Insurance Institutions and the Insurance Business, and the insurance companies established or having a branch in a state, and are deemed insurers according to the law of that state, with which the Republic of Hungary has an agreement on double taxation concerning the income and wealth tax system.

6.9.

7) The following shall be tax-exempt for other reasons:

7.1. value received by a private individual by way of inheritance, legacy or enjoiner, income received by a private individual under a maintenance or life annuity contract or under contract of inheritance concluded with another private individual; the income received by a pensioner under a maintenance, life annuity or inheritance contract concluded with a central budgetary agency or a local self-government; income received by a retired member of a cooperative from the transfer of his business share in the cooperative acquired as an allocated asset as part of a life annuity contract concluded with the cooperative in which he/she is a member, if the amount of such income is not more than one-tenth of the face value fixed at the conclusion of the transition annually or not more than 10,000 forints monthly;

7.2. value paid (provided) to a private individual by other private individual(s) in the form of gratuitous or preferential grants; this provision shall not apply if the grant is paid (provided) in connection with or arising

out of the supply of goods or services (conveyance of valuable consideration), such as any income received by a private individual in the form of tips, gratuities and the like shall not be tax-exempt);

7.3. the sums paid to the beneficiary by the voluntary mutual insurance fund;

7.4. any gain on the conversion of foreign currency to forints or forints to a foreign currency, or foreign currency to another foreign currency, if such conversion is not part of any business operations;

7.5. interests and dividends on bonds and share notes issued prior to 1 January 1988;

7.6.

7.7. the fee and expense reimbursement (expense allowance) paid to a donor, compensation for lost income in connection with donating an organ or tissue, meals provided to donors by a health care institution (including if provided in the form of meal vouchers) and the remuneration paid in connection with testing medicines on human beings or with the licensing and registration process of pharmaceuticals to a private individual on whom the medicine (agent) was tested; for the purposes of this provision, the donor is the person who gives or surrenders his/her own blood, mother's milk, skin, organs or cells;

7.8. Use of computer hardware and Internet access provided to private individuals free of charge or at discounted rates by way of tender financed from government resources (including, in particular, payment of admission, monthly and service charges and the provision of modems, and the certificates provided for the purchase of computers for accessing the Internet not to exceed 50,000 forints annually);

7.9. Debts owed to the central budget cancelled or assumed under the Act on the Budget of the Republic of Hungary, the Act on the Budget of the Social Security Funds, the Act on the Implementation of the Act on the Budget of the Republic of Hungary, and the Act on the Implementation of the Act on the Budget of the Social Security Funds if the private individual did not previously claim any income on the basis of these obligations; private individuals shall not be permitted to claim any expenses from the funds that are available under such obligations following the date of cancellation or assumption;

7.10. the amount of value added tax payable on a transaction as governed under the Value Added Tax Act, if paid by the taxpayer who is entitled to deduct the tax instead of the person who is otherwise liable to pay the tax, that is to be indicated in the tax return of the person liable to pay the tax;

7.11. use of computer hardware and Internet access provided by an employer free of charge or at discounted rates (including, in particular, payment of admission, monthly and service charges and the provision of modems);

7.12. targeted interest subsidies provided in connection with student loans under the Government Decree on the Student Loan System and the Student Loan Center;

7.13. employee benefits provided under the provisions of the Act on the Sale of State-Owned Entrepreneurial Assets; the amount of such benefits shall be taken into consideration by the employee, or his heir if the share obtained by the employee was part of an estate, as part of the acquisition value of the security.

7.14. income received under a life-annuity contract concluded pursuant to the Act on National Land Reserves and the Government Decree on the Purchase of Arable Land by the State in Exchange for Life Annuity.

7.15. remission of debts:

a) by public utility companies providing public services under the Act on Consumer Protection, and debts cancelled by credit institutions and financial enterprises in part or in full (also if within the framework of composition) under the conditions ensuring equal and non-discriminatory treatment to all customers of similar circumstances, if the debts are cancelled with a view to preventing the impoverishment of the debtor and his family,

b) by credit institutions, investment service providers, financial enterprises originating from financial services, activities auxiliary to financial services, investment services or activities auxiliary to investment services, where the amount of debt is 10,000 forints or less, on condition that it permanently terminates the claim of the credit institution, investment service provider, financial enterprise vis-à-vis the private individual;

7.16. any sums credited to an individual retirement account if:

a) it constitutes the profit of a transaction with an investment instrument;

b) it is the yield of the investment instrument, exclusive of dividends.

7.17. training aid financed from any sub-system of the central budget and/or any financial scheme of the European Union, provided to private individuals attending adult education classes or employment-related training courses in due observation of the obligations concerning the appropriation of funds received on the basis of legal regulations, tender or program (not including income supplement and income compensation

allowance), and the meal allowance, travel and accommodation support, and subsistence support provided during the adult education training courses.

7.18. the interest on the deposit accounts of the guardian authority opened at credit institutions on the basis of law, and the yield of securities deposited at an investment service provider by decision or order of the guardian authority;

7.19.

7.20.

8) The following in-kind benefits shall be tax-exempt:

8.1. educational, health care and social benefits paid by the state, local self-government, social security and religious organizations (including meals provided free of charge or at discount to children, students, due to illness or to persons eligible for social care), however, subsidized vacations and subsidized convalescence vacations shall not be considered as health care, or social provisions;

8.2. the allowance on a convalescence resort treatment provided by the social security administration based on a doctor's prescription in a domestic resort classified as a convalescence resort by the competent public health authority, furthermore, the cost of medical treatment from the value of the convalescence treatment, provided at a reduced rate, but not financed by the social security system;

8.3. benefits provided by the Magyar Nemzeti Üdülési Alapítvány (Hungarian National Recreation Foundation) upon application to persons considered socially needy in the form of vacation vouchers;

8.4. the convalescence treatment allowance granted to professional members of the Hungarian Armed Forces and law enforcement organizations;

8.5. welfare benefits given to homeless and indigent private individuals;

8.6. the following benefits provided in the form of gratuitous or preferential grants:

a) benefits provided by means other than money to children or to another private individual in the same context, as governed by the Public Education Act, the Act on Child Protection and Custody Administration and the Act on Regulating the Schoolbook Market, and benefits provided by means other than money to students under the Higher Education Act;

b) travel passes for local and long-distance public transportation provided by educational institutions to their students under the Public Education Act;

c) kindergarten services;

d) employment-health care services;

e) memorial services;

f) lodging provided in official quarters and in workers hostels; for the purposes of this provision, a workers hostel is a lodging place owned or rented by the payer that is intended to accommodate more than one private individual in each room who is employed by the payer and has no place of residence in the municipality in which the place of work is located; a lodging place shall not qualify as a workers hostel if the payer accommodates private individuals and/or their relatives with whom he maintains a relationship defined in the cases classified as affiliated enterprises in accordance with the Act on Corporate Tax;

g)

8.7. services provided by a payer at a sports event held in a facility maintained by such payer (not including travel, board and lodging services) as well as services provided to participants (with whom there is no engagement under contract of employment, nor under commission agency or subcontract relationship) in training or competitions organized by sports organizations or national athletic associations in the interest of competitive or student sport, in the form of travel, board and lodging services connected with the tasks of training and competition (providing continuous accommodation for athletes - such as in a hotel - for a period of more than 30 days shall be subject to this provision only if it serves the purpose of participating in or preparing for the Olympic Games, World and European championship events and tournaments or under the Hercules program);

8.8. protective devices provided as prescribed by law, as well as accident prevention and health protection devices;

8.9. crop allocation from mowing embankments, and bathing services provided to private individuals employed in swimming and beach facilities;

8.10. equipment and services provided in kind to Members of Parliament with a view to discharging their duties stemming from such office by the administration body of Parliament pursuant to the Act on the remuneration of Members of Parliament;

8.11. transportation of group of passengers;

8.12.

8.13. land allotment not exceeding 6000 square meters, excluding its redemption in any manner whatsoever;

8.14. benefits provided by a payer

a) for business policy (advertising) purposes within the framework of a public campaign conducted among the general public, to private individuals who comply with the relevant conditions specific to the said provision - if other than awards and prizes of games and contests, or winnings from lottery games subject to authorization as defined in the Act on Gambling Operations:

aa) in the form of discounts,

ab) in the form of rebate or other similar benefits tied to the purchase of goods and services, including any thing of value that can be exchanged for goods and services, irrespective of the way in which it is presented;

b) product samples provided for demonstration and promotional purposes, where any component part or small quantity of a product that carries specific characteristics of that product, whose sole purpose is to demonstrate the product in question, and that is not suitable for long-term use or for other objectives due to its physical substance or pecuniary value shall be treated as a product sample;

8.15. the benefit, based on which the payer is granted a consumer price subsidy defined in the relevant Act;

8.16. in-kind benefits provided in connection with 12 or more consecutive hours of duty to members of the Hungarian Armed Forces and law enforcement organizations permanently exposed to duties of increased intensity or participating in combat readiness exercises, and to persons participating in the special periodic disaster relief activities of civil defense organizations, as well as benefits by means other than money received by reservists, and students at military and police secondary schools and academies who have concluded a study contract or receive a scholarship solely in connection with this legal relationship for the purposes of service duties; for the purposes of this Act, the professional or contracted staff members and voluntary reservists, members of anti-terrorist squads, flight crews, aviation technicians, divers, explosive experts and paratroopers, as well as those ordered on peace-keeping duty shall be classified as private individuals permanently exposed to duties of increased intensity;

8.17.

8.18. the fraction of an amount up to 5,000 forints from the value of prizes received from non-governmental organizations or churches once a year, for the purposes of this provision securities shall not be regarded as prizes;

8.19. a)

b) the hospitality (food and beverages) and associated services (travel, accommodation, programs, etc.) and gifts provided during intergovernmental and interstate diplomatic functions by the President of the Republic, the Speaker of the Parliament, the Prime Minister, the minister in charge of foreign policies, the minister in charge of economic policies, and the minister in charge of defense; in respect of the minister in charge of foreign policies, the minister in charge of economic policies, and the minister in charge of defense this also includes when providing the above through a foreign diplomatic mission;

8.20. allotment provided in connection with an obligation of support as defined in the internal laws and rules of the church, also including the vacation provided by the church to a clergyman in a resort owned and operated by the church, as well as the pecuniary benefits or benefits by means other than money received from a registered monastery by a private individual member living in such monastery to cover his individual needs;

8.21. transport benefits described in a government decree, for which the payer receives no consumer price subsidies;

8.22. events and programs organized with support from the National Cultural Fund, the fraction of the value of travel, accommodation and meal allowances that is not in excess of the amount of support, and the benefits from any sub-system of the central budget - directly or indirectly in view of the source -, from church funds or from the own revenues of a public school to:

a) children and students requiring special attention in terms of tutorial and educational needs by means other than money in cultural, sports and other events of the like, including travel, lodging and meal accommodations and other services normally provided in connection with such events;

b) children and students attending public or similar schools during a study tour, camp or competition (including tutorial books);

c) to private individuals by means other than money for their services as guides and supervisors of the children and students during the events referred to in Paragraphs a)-b) (i.e. travel, accommodation and meals).

8.23. supplies provided to private individuals who participate in disaster relief operations according to the Act on the Supervision and Organization of Disaster Relief Operations and on the Control of Serious Accidents involving Dangerous Substances.

8.24. articles of work clothing provided by an employer to a private individual employee;

8.25. sports garments and uniforms, with the national coat of arms, issued by sports organizations to competitors and officials for participation in the Olympic Games, World and European Championships and special world games, as prescribed by international organizations;

8.26. set of clothing for the applicable season issued to a private individual being released from a penitentiary institution;

8.27. regular and special child welfare subsidies provided as provision in kind in accordance with the provisions of the Act on Child Protection and Legal Guardianship;

8.28.

8.29. any support the employer (former or current) provides to employees dismissed or planned to be dismissed in connection with collective redundancy for finding new employment. For the purposes of this provision 'assistance provided to workers to find new employment' shall include psychological consultation, retraining and further training, and legal advice in employment relations;

8.30.

8.31. the part of the acquisition (book) value of securities (not including the securities which are deemed repurchased property shares) shown in the analytical records of the organization separately pursuant to the government decree adopted by authorization granted in the Accounting Act under securities or shares acquired, and which are conveyed to the participating employee, that is in excess of the payment contributed by said employee until the date of conveyance and are claimed by the ESOP organization as revenues; the ESOP organization shall disclose the amount of in kind benefit with respect to each participating employee to the tax authority by 31 January of the following tax year;

8.32. the allowance or support provided within the framework of social electricity provision as governed in the Act on Electric Energy to the recipients specified in the legal regulation enacted by authorization under the Act, and any support (refund) provided - directly or indirectly - by a public utility supplier to all or a major segment of consumers, including cancelled debts from outstanding public utility charges;

8.33-8.34.

8.35. local services and food and beverages provided in cultural, heritage preservation, sporting, recreational and similar community events organized by the local authorities, local minority self-governments, non-governmental organizations, foundations, public foundations or religious organizations to the general public (not private) that may be attended by any person without any discrimination, and gifts of the same value distributed among the participants, up to ten per cent of the total costs of the event.

8.36. services provided free of charge by organizations providing library, archive and museum services or engaged in other cultural and artistic activities the operations (except of such services are provided by the order of another person);

8.37. the use of a motor vehicle supplied by a payer or nonresident legal person for private purposes, including the related road passes or tickets provided by the said payer or nonresident legal person.

8.38. the value of entertainment and gifts if the payer is required to apply them as part of the corporate tax base.

8.39. vaccination provided by the payer.

9) Miscellaneous provisions on tax exemption.

9.1.

9.2. Work clothing:

a) service uniforms, work uniforms, protective clothing, work clothing, and accessories of such which are regulated according to the method and under the conditions laid down in an act or in a legal regulation adopted under authorization conferred by an act;

b) such clothing and accessories which are worn during work functions in the sphere of work by the employee for the protection of his health, or for protection of clothes worn outside of the sphere of work, while not carrying out work functions, provided that, on the basis of the circumstances, it can be determined that the health of the employee is at risk, or that his clothing is subject to extreme soiling or rapid wear;

c) service uniforms, work uniforms, protective clothing and work clothing, and accessories of such

ca) in the field of road transportation, for positions involving direct interaction with passengers and clients, and for technical, physical and direct production management positions,

cb) in the field of water transportation, for positions involving direct interaction with passengers and clients, and for technical, nautical, physical and direct production management positions, for shipping companies for traffic and commercial positions and such involving interaction with the public, or such involving representation of the shipping industry,

cc) in the field of air transportation, for positions involving direct interaction with passengers and clients, and for technical, physical and direct production management positions, and for air traffic control positions,

cd) in the field of postal services and telecommunications, for positions involving direct interaction with clients and parties using such services, and for technical, physical and direct production management positions,

ce) in the field of water management activities, for positions related to dike and canal supervision, and for technical, physical and direct production management positions,

d) clothing which is clearly of costume type (thus in particular the costumes in a theater play) distinguishing clothing for persons carrying out services (hotel porters, waiters, sports referees, funeral home attendants) and the accessories of such, which are not suitable for wear when not attending to job functions.

9.3-9.4.

9.5. Regulations pertaining to the tax exemption of income from the sale of arable land

9.5.1. Income from the sale of arable land shall be exempted:

a) up to 200,000 forints, if the private individual's total income for the tax year does not exceed 4,318,000 forints; and

b) if the arable land is transferred to a private individual who has a registration number and who undertakes the commitment to utilize the land as a private entrepreneur or a small-scale agricultural producer for at least five years, or if the arable land in question is transferred by the private entrepreneur to an employee of a registered agricultural business association who agrees to lease the land to the employer agricultural business association for at least ten years; if the transfer also results in the termination of some ownership share the provisions of Paragraph a) shall not apply;

c) if the private individual - Paragraph a) notwithstanding - transfers the arable land to a private individual who has a registration number and who is engaged in animal husbandry, and who operates on an area that remains below the limit specified in specific other legislation in terms of size (until the limit is achieved), provided that the buyer private individual agrees to utilize the land as a private entrepreneur or a small-scale agricultural producer for at least five years for growing forage for the animal farm, or if the private individual leases the land to the agricultural business association where he is employed for supplying fodder to the animal farm for at least ten years;

d) in the cases not mentioned in Paragraphs a)-c), if the land in question is transferred:

da) to the private individual for reasons of land consolidation, or

db) to a local self-government in connection with a social land program governed in specific other legislation, or

dc) to the National Land Reserves,

as pertaining to Subparagraph db), the deed of sale shall indicate the number of the local self-government decree laying down the conditions for the social land program for the underprivileged.

In calculating net income the regulations of this Act on income from the transfer of real property and rights in immovables shall apply *mutatis mutandis*.

9.5.2. The provisions of Subpoint 9.5.1 shall apply to the seller of land if in possession of a statement made by the buyer in front of a notary public or one that is countersigned by an attorney, which instrument is to contain the buyer's natural identification data, tax identification code and the buyer's commitment for compliance with the conditions for exemption. The seller must retain this statement of the buyer until the term of limitation of the right for tax assessment. The tax authority shall hold the buyer liable for any unpaid taxes, and the ensuing legal consequences resulting from false information disclosed in the statement.

9.5.3. If the private individual who has acquired arable land on the strength of a statement made under Point 9.5.2 fails to live up to the commitments laid down in the statement, the sum indicated as the price of the arable land in the underlying contract shall be treated as income immediately upon his failure to satisfy any condition.

9.5.4.

Schedule No. 2 to Act CXVII of 1995

Accounting of Revenues Included in the Consolidated Tax Base

In addition to the provisions of Chapter VI, the revenues contained in this Schedule shall be also be taken into consideration when establishing income from self-employment activities.

I. Revenues typically arising

The following shall be regarded as revenues particularly within the framework of operations or in connection therewith:

1) amounts received as consideration for products, goods and services supplied, or those received as advance thereof, or settled by a bill of exchange, consideration received in kind (with markups, discounts, price subsidies and consumption taxes included in all cases), furthermore, any extra charges for shipping or delivery or packaging of the goods;

2) the consideration or fair market value (if the latter is greater) received upon the sale of tangible assets used exclusively as operational assets, also including retired tangible assets, intangible assets, materials, semi-finished products (hereinafter referred to collectively as "property assets"), if the private individual applied the purchase or production costs of such assets among his expenses in any year, or wrote off the depreciation allowance thereof, whereby for the taxation of the income received for a movable property, real estate or rights in immovables, which was used not exclusively for business purposes upon being sold by the private individual engaged in self-employment activities, the provisions of Chapter XI shall be applied for the entirety of such income;

3) interests received;

4) amounts received as indemnity, default interest, fine and penalty, as well as amounts received as refunds of paid indemnity, interest, fine and penalty, unless claimed as costs earlier;

5) subsidies received (including any uniform territorial assistance), with due consideration of the provisions of Chapter VI as well;

6) the fair market value of manufactured or purchased products and services rendered or purchased, if used by the private individual for his own purposes, or surrendered in part or in full to others without consideration, in case the private individual claimed the costs in connection thereto in any year; however, the value of utilization for own purposes or of surrendering in part or in full to others without consideration shall not increase income, if the private individual

a) did not claim the related costs among his expenses or if he deducted such costs from his total expenses,

b) donated the product or service in connection with a natural disaster or other emergency;

7) in respect of the transfer of tangible assets valued over 100,000 forints - or 50,000 forints if purchased before 1 January 2006 - exclusively used for operational purposes, without consideration, if the value of such assets was accounted in one amount by the small-scale agricultural producer, unless provided as an in-kind contribution, within the following period of time from the date of purchase

- 100 per cent of the acquisition value, within one year,

- 66 per cent of the acquisition value beyond one, but within two years,

- 33 per cent of the acquisition value beyond two, but within three years,

- zero per cent beyond three years;

8) refunds of the difference of tax and social security contributions, etc., if the private individual claimed the payment of such as a cost in any year;

9) for small-scale agricultural producers, indemnification received for damages, including the amount received on the basis of liability insurance;

10) the value of insurance payments, if the small-scale agricultural producer claimed the premium paid on such policy as a cost;

11) positive difference accumulated due to the application of the rules of rounding off.

II. Termination of small-scale agricultural activities

The following shall be considered revenue in the year in which the activities are terminated

1) the inventory value of all stocks (materials, goods, semi-finished and finished products) available at the time of termination and previously claimed as costs, and the inventory value of tangible assets (including spare parts and production equipment) worth less than 100,000 forints - or 30,000 forints if purchased between 31 December 1991 and 1 January 2001, or 50,000 forints if purchased between 31 December 2000 and 1 January 2006;

2) the consideration received in return for relinquishing the right of use or lease of shops, workshops, offices or any other real estate which is exclusively used for gainful activities, also if the private individual had not yet received them by the date of termination, if the private individual claimed the costs of acquiring the right of use or lease among his expenses in any year, with the exception that if the amount of consideration is still unknown in the year of termination, the amount spent to acquire the right of use or lease of the real estate shall be taken into account as income;

3) the amount available until the deadline of filing tax returns (and/or until the date of filing) and received after the tax return on the termination was filed, up to 31 December.

The provisions applicable to income from self-employment activities shall be applied for revenues received after the tax return or the employer's statement of accounts in connection with a simplified declaration statement, or tax assessment by the tax authority for the year of termination was filed, whereby any expenditure incurred following the aforementioned date may be deducted from the revenues, and/or the portion which is not deductible may be accounted by self-revision of the tax return.

III. Miscellaneous provisions

1) The uniform territorial assistance referred to in Point 5 of Chapter I of this Schedule shall be treated as income for the year when received.

2) By way of derogation from the provisions contained in Point 1 private individuals may claim the uniform territorial assistance received during 2005 as income for the year when received and for the following year in the percentage they have decided.

3) If the private individual is required to repay the uniform territorial assistance, the amount repaid shall be deducted from the income shown for the tax year when the repayment was effected.

Schedule No. 3 to Act CXVII of 1995

Costs to be Claimed in Connection with the Consolidated Tax Base

The provisions of this Schedule, with due consideration of the general provisions of this Act pertaining to approved costs and to the claiming of such costs as well, shall be applied in respect of a private individual pursuing self-employment activities if establishing his income by way of itemized expense accounting, as well as in all other cases when it is necessary to determine, in respect of the accounting or reimbursement of the private individual's expenses (including the cost reimbursements effected on the basis of law), whether such expenses are included in the category of approved costs.

The tangible and intangible assets used by a private individual exclusively in connection with his independent activity (activities) that are not used for other purposes to any extent whatsoever, and such use is clearly supported by his business records, shall be regarded as operational assets. Passenger cars may not be regarded as tangible assets used exclusively for business purposes.

Private individuals may claim expenses directly connected with their gainful activities as costs, also flat-rate depreciation in a limited amount, furthermore small-scale agricultural producers:

a) the depreciation allowance of tangible and intangible assets;

b) expenses for the purchase of materials and goods, if used subsequently for the activities, if purchased no more than three years prior to the commencement of such activities and if such expenses were not claimed as costs previously, also may claim his other expenses incurred in connection with the commencement of such activities in the year of commencement, and may begin writing off the depreciation allowance of tangible and intangible assets acquired not more than three years previously.

In respect of the tangible and intangible assets used for more than one independent activity, the private individual shall be entitled to choose the activity under which to claim the costs recognized in this Schedule

relating to such tangible and intangible assets. The expense (depreciation allowance until fully retired) may not be divided among the revenues of different activities.

I. Costs typically arising

The following are expenditures that may be claimed as costs:

1) expenditures on the purchase of materials and goods, as well as for packing materials (less the consideration received for redeemable packing material when returned to suppliers), shipping and delivery costs;

2) expenditure on the purchase or manufacture of tangible and intangible assets used exclusively for business purposes, if below 100,000 forints, as well as the costs of repair and maintenance for the continuous, uninterrupted and reliable operation of such tangible assets, in respect of small-scale agricultural producers irrespective of the acquisition value of tangible and intangible assets used exclusively for business purposes, noting that the provisions of Chapter IV shall be applied with regard to vehicles;

3) the following sums payable to private individuals employed by a private individual engaged in self-employment activities (hereinafter referred to as "employee"):

a) wages paid and the public dues on such wages;

b) the total of the face values of public dues certificates obtained to cover the wages paid in connection with the employment - in accordance with specific other legislation - of the employee with a temporary employment book and made out to the name of a private individual employer in a form suitable for accounting purposes, that is also indicated in the temporary employment book and in the prescribed records;

c) accident damages awarded and paid to the employee;

d) mandatory allowances and payments due to the employee and payable by the employer as prescribed by law or on the basis of the collective agreement or employment contract;

4) in respect of small-scale agricultural producers, the amount paid to a family worker over the age of sixteen, but not more than the prevailing mandatory minimum wage, provided that such family worker works at least 40 hours a week (full-time family worker) or working less hours a proportionate part thereof, with the exception that a full-time family worker shall otherwise be considered an employee solely in respect of Point 3;

5) one's own social security contribution that is not paid on the basis of an agreement;

6) membership fees or a similar corresponding amount paid to a public body and membership fees paid to a non-governmental organization if it provides interest representation services in connection with self-employment activities;

7) guarantee and warranty costs, as confirmed by the customer or purchaser;

8) the premiums of property, liability, life and accident insurance policies paid by a small-scale agricultural producer for security in connection with his gainful activity and the conditions thereof, in respect of life insurance if the small-scale agricultural producer did not receive any tax allowance on such grounds;

9) the interest paid by a small-scale agricultural producer on a loan (credit) borrowed from a financial institution in connection with such activities;

10) taxes paid to the state budget, central funds and local authorities exclusively in connection with the given independent activity (not including personal income tax), duties, official fees, customs duty, customs clearance charges, court charges, default interest, penalties and self-revision surcharge;

11) rental of retail establishment, workshop or farm building, costs of heating, lighting and technological energy, telephone charges, mobile telephone, fax, CB radio and telex fees, whereby if the dwelling and the business premises are not technically detached, the expenditures may be taken into account in proportion of the activity on the basis of the units of measurement applicable to the given costs (day, square meter, cubic meter, etc.);

12) in respect of small-scale agricultural producers, the price of telephone, mobile telephone, fax, CB radio and telex units and the applicable installation fees if installed on the business premises (if the dwelling and business premises are not technically detached, 50 per cent of the price of the telephone set and the installation fee), as well as 30 per cent of Internet charges, without itemization, if not used

exclusively for business purposes, and 50 per cent for small-scale agricultural producers required to file their tax returns electronically, may be claimed as cost;

13) in respect of small-scale agricultural producers, the telephone development contribution, as well as the amount of public utility development contribution less the portion refunded by the local self-government, with the exception that if the equipment serving as the basis for the contribution is installed in a location which is not technically detached from the dwelling, the difference between the paid higher contribution and the sum otherwise payable by the private individual in such case may be claimed as cost;

14) the costs of specifications and blueprints, fees of subcontract work, payments to subcontractors and service charges (such as advertisement costs);

15) in respect of small-scale agricultural producers, the costs of work clothing, protective devices listed in Schedule No. 1, the costs of occupational safety, accident prevention, and environmental protection equipment;

16) expenses incurred in connection with any aid received under legal regulation or international agreement if used for the activities in harmony with the said legal regulation or international agreement, also if it serves the personal or family needs of the private individual in whole or in part (however, if the aid covers only a part of the expense, it may be claimed under this provision only to the extent that is covered by the aid);

17) the costs of travel and accommodations for official and business trips and the costs of travel, accommodations in respect of foreign assignments, furthermore, the expenses recognized under Point 7 of Chapter II of Schedule No. 3, entitled 'Costs which may be claimed without substantiation' in connection with activities underlying entitlement for claiming expenses without substantiation in the case of foreign assignment, whereby the provisions of this Point may not be applied if it can be established, even if indirectly, on the basis of the actual contents of the travel documents and the applicable circumstances (arrangements, advertisement, promotion, travel route, destination, duration of stay, ratio of actual business related and free programs. etc.) that the official or business nature of such travel is fictitious;

18) private individuals engaged in self-employment activities having an employee, with the exception of small-scale agricultural producers, may not claim any expenses as per the provisions of Point 17 on account of the employee;

19) from the amount paid under a lease contract, for the lessee, only the monthly lease payment as prorated on basis of the lease term and the total lease charges and other related costs, not including value added tax, of tangible and intangible assets used solely for business purposes as described in Point 2, with due consideration of the provisions of Points IV/4-5, but not more than an amount equal to 3 per cent per month of the total lease charges, or 1.1 per cent in respect of real estate, and/or the amount calculated for the tax year on the basis thereof;

20) small-scale agricultural producers, in respect of the sale of tangible and intangible assets used exclusively for business purposes (even if they have been retired, destroyed, or surrendered without compensation), may claim the depreciation allowance not written off, or in respect of tangible and intangible assets which cannot be depreciated, the investment expenses recorded at the time of sale, by the date of sale as a cost at the time of sale;

21) the surplus accumulated when applying the rules of rounding off may be claimed as cost among expenses;

22) expenses typically incurred by private individuals engaged in artistic activities, such as entry fees paid for visiting a show, exhibition, museum or public collection in connection with such activities, also the expenditures in connection with any device, image or sound carrier containing literary or artistic works or used for the recording or playback of such, the price paid for books, sheet music and other media products, the costs of training sessions pertaining to such activities, furthermore, in respect of performing artists, the costs of beauty and cosmetic products or services bought or received in connection with appearing on stage.

23) road tolls and charges as consistent with the distance traveled on toll roads for business purposes for the period of eligibility of road usage.

24) persons employed in teleworking may claim the following - substantiated - costs against their income received, for the purpose of compensation for their expenses incurred in connection with teleworking performed under employment contract in accordance with the provisions of the Labor Code on teleworking:

a) the costs of intangible assets, computers and computer accessories and peripheral equipment used for teleworking and for communication, up to 100,000 forints;

b) from the costs of intangible assets, computers and computer accessories and peripheral equipment used for teleworking and for communication, if over 100,000 forints, a depreciation allowance calculated with 33 per cent depreciation rate; this depreciation allowance - regardless of what is contained in Chapter III - shall also be subject to the provisions under Schedule No. 11 pertaining to depreciation write-offs, furthermore, they may be claimed as costs on condition that they are recorded separately in itemized records;

c) costs of internet access (including, in particular, payments of admission, monthly and service charges);

d) lease charges paid for premises used as the place of work, other than the employer's facilities, the costs of heating, lighting and technological energy, however, if the dwelling and the business premises are not technically detached, the expenditures may be taken into account in proportion to the teleworking activity on the basis of the units of measurement applicable to the given costs (work time, square meter, cubic metro, etc.).

25) in connection with income received relative to the activities of Members of the European Parliament, Members of Parliament and representatives of municipal governments, and with the flat-rate expense allowance of mayors, the expenses incurred in the process of discharging their functions supported by invoice made out to the private individual's name - including in particular the costs of accommodations incurred by Members of Parliament eligible for housing allowance -, and the flat-rate depreciation of tangible assets used in connection with discharging their respective functions.

II. Costs which may be claimed without substantiation

In respect of the costs approved by this Act, where an Act or Government Decree (hereinafter referred to as "legal regulation") prescribes the reimbursement of costs, instead of applying the actually incurred and substantiated expenses, costs may be claimed without proof on the given legal ground, up to an extent defined in a legal regulation under the condition that such costs be considered as claimed in full. The following shall in particular qualify as such costs:

1) the amount not exceeding 30 per cent of the annual wages or emoluments paid to a freelance contractor in connection with his such activities, provided the private individual does not claim any other expenses in connection with this legal relationship;

2) up to 50 per cent of the income of a private individual serving in the Hungarian Army for activities carried out in a foreign theater of operations, other than military diplomacy, not including any reimbursement of lodging (dwelling) rental fees and of travel expenses;

3)

4) the fuel consumption allowance as specified in the Government Decree on the Rate of Fuel and Lubricant Consumption of Motor Vehicles, Agricultural, Forestry and Fishing Machinery to be claimed without verification;

5) expenses of Members of the European Parliament and European Parliament observers paid by the European Parliament;

6) from the amount of expense reimbursement paid by a payer to a private individual for using his own vehicle, the sum calculated on the basis of the fuel consumption allowance as per the distance in kilometers indicated in the assignment order and of the fuel price published by state tax authority, and of the 9 forints/kilometer standard cost rate for passenger cars.

7) the amount of daily allowance paid on the grounds of foreign assignment (foreign service) to a private individual employed as a driver or as a freight assistant in international road transport of goods or passengers (provider of road transportation services for the international carriage of goods, or a freight assistant participating in such services, that is subject to authorization in accordance with specific other legislation on road transportation services and on the operation of motor vehicles, or with other relevant regulations) exclusively in respect of such activities, provided that the private individual in question is entitled to claim the expenses, verified by receipts or other documents, directly and exclusively pertaining to the operation of the motor vehicle abroad in accordance with the government decree on the approved expenses of foreign assignments (foreign service), and is using this accounting method;

8) the flat-rate cost to be claimed based on the Government Decree on the Reimbursement of Expenses of Driving Instructors on Using their Own Vehicles.

III. Accounting of depreciation write-off

1) Depreciation allowance on tangible and intangible assets used exclusively for business purposes may only be claimed by agricultural producers registered according to the relevant government decree and by small-scale agricultural producers. It shall be calculated in accordance with the provisions pertaining to private entrepreneurs with the exception that agricultural producers registered according to the relevant government decree and private individuals treated as family estate farmers on the last day of the tax year under the Arable Land Act and their family members participating in the family homestead in a form other than employment shall have the option to claim the costs of tangible and intangible assets as recorded at the time of commissioning, provided that such assets are part of the family homestead, as expenses for the tax year when they were commissioned. Other private individuals engaged in activities in a self-employed capacity (other than private entrepreneurs) shall apply the provisions of Point 2 on tangible and intangible assets used exclusively for business purposes.

2) In respect of own machinery, equipment and accessories not exclusively used for business purposes, a private individual engaged in self-employment activities may use a flat depreciation write-off rate if maintaining records on such tangible asset not exclusively used for business purposes to include the description and acquisition price (cost of manufacture) - as the book value - of the tangible assets, along with the date of acquisition (manufacture) and commissioning. The amount of the flat rate, also if using more than one such asset, may not exceed 1 per cent of the annual revenues, or 50 per cent of the book value of the tangible asset(s) included in the aforementioned records. This flat rate may be applied only once, based on the value of any particular tangible asset not exclusively used for business purposes, in the year of commissioning.

3) Without prejudice to the provisions contained in Points 1-2, private individuals shall write off the purchase (production) cost of any tangible or intangible asset purchased (manufactured) with funds received in aid by virtue of legal regulation or international agreement to the extent financed from such aid as depreciation at the time the asset is commissioned or validated (placed into operation) or - if not placed into operation - at the time when retired, sold or removed from the records for any other reason. No additional depreciation may be claimed with respect to tangible and intangible assets which are not exclusively used for business purposes.

IV. Vehicles costs

1) The fuel consumption of personally owned vehicles, hereinafter also including the vehicle owned by the spouse, and the costs of maintenance, repair and overhaul as substantiated by invoices (receipts) may be claimed, and in respect of small-scale agricultural producers the depreciation write-off, to be applied as described in Point 1 of Part III, on vehicles used exclusively for business purposes. As fuel consumption, either:

a) the fuel consumption allowance and the fuel prices published by state tax authority,

b) or the fuel purchases substantiated by invoice (invoices) may be claimed, however, the quantity of fuel accounted on the basis of invoices may not exceed the quantity calculated by the fuel consumption allowance and the actual rate of usage,

whereby the private individual may not deviate within any quarter of the tax year from the expense accounting method related to fuel consumption, including the fuel consumption allowance selected that was selected on the first day of the quarter. The provision contained in Paragraph a) may not be applied if the private individual has deducted the value added tax of fuel in accordance with the VAT Act.

2) Depreciation write-off may be applied by the flat rate described in Point III/2 against the acquisition price of own vehicles, excluding passenger cars, not exclusively used for business purposes. For passenger cars flat-rate accounting may be applied as per the following: upon maintaining the records described therein, 1 per cent of the annual revenues, but no more than 10 per cent of the passenger car's acquisition price may be claimed, or such amount may be added to the expense otherwise accounted as the flat rate described in the aforementioned provision. This flat rate may be applied only once, based on the value of one passenger car, in the year of commissioning.

3) In respect of own passenger cars, in addition to fuel expenses instead of the provisions of Point 2 and on the grounds of all other expenses (e. g. maintenance, repair, overhaul), a flat rate of 9 forints/kilometer (general purpose passenger car standard expense) may also be selected.

4) In respect of vehicles owned by others and are used exclusively for business purposes the following may be claimed:

- a) verified lease or rental charges (not including the rental or lease charges on passenger cars),
- b) the fuel consumption as described in Point 1,
- c) other invoiced expenses, if being the responsibility of the private individual on basis of a contract.

5) The amount applicable as expense on the grounds of rental or lease charges of a passenger car may not exceed 1 per cent of the revenues of self-employment activities also if applied to more than one passenger car, otherwise a private individual may not claim any expenses on such grounds. In respect of a vehicle which is not own property and used for business purposes the following may be claimed:

- a) the fuel consumption as described in Point 1,
- b) other invoiced costs

applicable to business usage and if being the responsibility of the private individual on the basis of a contract.

6) Regardless of which expense accounting method is used, a separate mileage log, as described in Point II.7 of Schedule No. 5, shall be maintained for each vehicle, to include the odometer reading of the first and last day of use for business purposes. Expenses may only be claimed on the basis of use for business purposes as verified by the mileage log described in this Part, exclusive of the mileage for which the employer has already paid the private individual compensation, which is not regarded as revenue, for official or business travel based on an assignment order.

7) The choice made by a private individual between the expense accounting methods described in Point 1 or Point 3 applies to all vehicles used by such private individual and for the entire tax year. If a private individual applies the costs of his other vehicles in addition to those of the passenger car(s) it shall not exclude application of the accounting method described in Point 3 uniformly to all his passenger cars. If accounting the expenses incurred by using passenger cars in accordance with Points 4-5, the accounting described in Point 3 may not be applied for own passenger cars either.

8) By way of derogation from the provisions of Point 6, small-scale agricultural producers may, instead of keeping a mileage log, claim 500 kilometers per month for the use of own passenger cars for business purposes, with due consideration of Point 3, regardless of the number of passenger cars being operated. This accounting method may only be used for the entire tax year, or for the full duration of the activities within a fiscal year.

9) Private individuals shall prove ownership of their own cars by the receipt documenting payment of the compulsory motor vehicle liability insurance in compliance with the regulations of this Act on retaining accounting documents.

10)

V. Expenses, which may not be claimed as costs when determining income

1) expenditures on acquiring, maintaining, operating, overhauling and servicing assets, which are not related to the gainful activity, or, unless exceptions are prescribed in this Act, expenditures connected in any way or form to the personal or family needs of the private individual:

2) payment (fine, default interest, etc.) imposed due to tax evasion or any violation of other legal regulations established in the course of a financial inspection (audit), except for the self-revision surcharge and the tax arrears in respect of taxes that could otherwise have been claimed as costs in the event of legitimate performance;

3) amounts repaid on a credit (loan) borrowed for any purpose whatsoever;

4) the income tax of private individuals, as well as the payment liabilities in connection with which the private individual has applied tax reductions;

5) membership fees and insurance premiums, unless otherwise prescribed by law;

6) charitable donations;

7) expenses not in compliance with the regulations (extent, conditions, etc.) prescribed in Chapters I-IV and with the relevant general provisions, and with those pertaining to the expenses on self-employment activities as prescribed therein;

8) employee's medical and pension contribution paid not on the basis of an agreement in accordance with the provisions of the Act on the Eligibility for Social Security Benefits and Private Pensions and the

Funding for these Services, and the membership fees paid not on the basis of an agreement and not as a supplement in accordance with the provisions of the Act on Private Pension and Private Pension Funds;

9) the contributions or membership fees paid on the basis of an agreement and in accordance with the provisions of the Act on the Eligibility for Social Security Benefits and Private Pensions and the Funding for These Services and of the Act on Private Pension and Private Pension Funds;

10) non-repayable assistance received from the employer, including the sums granted to the private individual as aid;

11) taxes the private individual has paid abroad on his income, which are compatible to personal income tax.

Schedule No. 4 to Act CXVII of 1995

Conditions for Accounting Value Added Tax as Revenues and Costs

Private individuals regarded as taxable persons under the Act on Value Added Tax (hereinafter referred to as "VAT Act") shall account the value added tax charged on their purchases, and the VAT added during their sales as per the following:

1) Where VAT is paid in an itemized way in accordance with the common provisions of the VAT Act, it may not be shown under revenues or expenses. This provision shall not apply to the tax which is not deductible pursuant to the provisions of the VAT Act and which is to be shown under expenses, provided that the value added tax is associated with an expenditure which may be claimed as a cost in accordance with the provisions of this Act.

2) A private individual subject to the special provisions of the VAT Act shall deduct his VAT payment liabilities, falling under the scope of said special provisions, from his revenues; and the amount of the deductible tax may not be claimed as a cost. The non-deductible tax shall be added to the costs, if associated with an expenditure that may be claimed as cost in accordance with the provisions of this Act.

3) In the event a private individual is granted personal (individual) tax exemption, and/or exemption on the basis of (his) activities, within the VAT system, the VAT payable shall not be deducted from his revenues, and the non-deductible VAT charged on his purchases may be applied as a cost-increasing factor among his expenses, if associated with an expenditure that may be claimed as a cost in accordance with the provisions of this Act.

4) If, pursuant to the provisions of the VAT Act, the non-deductible VAT accounted as a cost-increasing factor on the basis of Points 1-3, becomes (in part) subsequently deductible, such adjustment shall be subtracted from the expenses of the year of deduction.

5) The VAT payment liability, which occurred subsequently, shall be deducted from the revenues of the taxpayers described in Points 2-3 when accounted. The revenue deductions, if greater than the previous VAT liabilities actually applied, shall be added to the revenues when amending the VAT liability.

6) In respect of private individuals engaged in agricultural activities selecting special legal status as described in the VAT Act, the compensation premium received from an agricultural wholesaler shall be regarded as revenue. A private individual acting as an agricultural wholesaler, being eligible for tax deduction, may apply such compensation premium as VAT charged.

Schedule No. 5 to Act CXVII of 1995

Tax Records

In accordance with what is contained in Subsection (1) of Section 9/A, private individuals shall be required to keep the records illustrated in this Schedule.

I. Basic Records

1) Common provisions

1.1. Basic records include the general ledger, the cash journal, revenue and expense records, and the revenue records, furthermore, the sales ledger comprising part of the small-scale producer license (types of basic records).

1.2. Basic records shall be kept by private entrepreneurs and small-scale agricultural producers. Private individuals are required to keep basic records with respect to any other activities in a self-employed capacity (other than private entrepreneurial or small-scale agricultural producer activities), if claiming any expenses when calculating the amount of tax advance or net income from the income generated by such activities (not including the approved expenses which may be claimed according to this Act without substantiation) or if any part of the income originates from entities other than payers. Private individuals shall keep basic records with respect to their activities other than self-employment only if claiming any expenses when calculating the amount of tax advance or net income from any expenses reimbursement that is treated as income (not including the approved expenses which may be claimed according to this Act without substantiation) or if any part of the income originates from entities other than payers or employers in connection with activities other than self-employment. The private individuals not required under the previous provisions to keep basic records shall retain the certificates issued by payers on their income from self-employment activities or from activities other than self-employment in compliance with their obligation of keeping records.

1.3. The basic records kept by private individuals who are engaged in private entrepreneurial activities, agricultural production, other self-employment activities and activities other than self-employment shall be separate and may be of different types. When using itemized expense accounting the basic records pertaining to other self-employment activities shall be maintained to indicate the income separately from each type of self-employment activity.

1.4. Private individuals shall determine as to which type of basic records to use for each tax year and they shall not be allowed to deviate from it throughout the course of the year. If a private individual is deprived of the right under the strength of this Act from using the type of basic records of his choice during the tax year, the existing records must be closed out on the last day before switching to the other type, and the summarized data from the closed basic records be carried forward to the new basic records. This provision shall not relieve the private individual from the obligation to retain the closed out records and the documents attaching to such records.

1.5. Small-scale agricultural producers using flat-rate taxation shall record in their basic records the income from the sale of live animals or animal products separately from the income generated by other agricultural activities.

1.6. At the intervals prescribed for the assessment of taxes and tax advances the various columns of the basic records shall be totaled and closed out.

2) The general ledger

2.1. The private individuals required to keep basic records may discharge this obligation by keeping a general ledger replacing any other type of basic records.

2.2. Private entrepreneurs and small-scale agricultural producers shall keep their general ledger so as to contain sufficient facilities to record all economic events resulting in the movement of funds - moneys received or paid out in connection with private entrepreneurial or agricultural activities (such as sales, purchases, borrowing, lending, entrepreneurial withdrawals) in an independently closed system. For the purposes of this provision, any consideration received in exchange for goods or services supplied shall also be treated as cash receipts, regardless of whether or not it is received in money or in any other form (for example, via exchange, barter) in full or in part.

2.3. The contents of the general ledger shall be determined in accordance with the provisions of the Accounting Act pertaining to companies using the single-entry system.

3) The cash journal

3.1. The private individual required to keep basic records may discharge this obligation by keeping cash journals if no other type of basic records has been selected, or if he did not exercise the right of selection of another type of basic records.

3.2. Private entrepreneurs and small-scale agricultural producers shall keep their cash journal so as to contain sufficient facilities - along with the supplemental records - to record all economic events resulting in the movement of funds - moneys received or paid out in connection with private entrepreneurial or agricultural activities (such as sales, purchases, borrowing, lending, entrepreneurial withdrawals) in an independently closed system. For the purposes of this provision, any consideration received in exchange for

goods or services supplied shall also be treated as cash receipts, regardless of whether or not it is received in money or in any other form (for example, via exchange, barter) in full or in part.

3.3. The cash journal shall contain at least the following data:

- a) serial number;
- b) date of economic event;
- c) serial number of the accounting document;
- d) brief description of the economic event (in particular the amount of consideration, purchase of materials, purchase of tangible asset, loan received or granted);
- e) revenues, showing separately
 - ea) taxable incomes,
 - eb) value added tax payable,
 - ec) non-taxable income;
- f) expenses, showing separately
 - fa) expenses approved as costs broken down as per the following
 - purchases of materials and goods,
 - mediation,
 - wages of employees and applicable public dues,
 - entrepreneur's withdrawals (only for private entrepreneurs using the entrepreneurial income taxation system),
 - other eligible expenses;
 - fb) expenses not approved as costs broken down as per the following
 - investment costs,
 - amount of value added tax deductible,
 - other non-eligible expenses.

4) Revenue and expense records

4.1. The private individual required to keep basic records shall have the option to discharge this obligation by keeping revenue and expense records if in the tax year the private individual

- a) is not entitled to deduct value added taxes or is not exercising this right, and
- b) is entitled to assess his tax by the simplified system if engaged in permanent commercial activities subject to local business taxation.

4.2. In the revenue and expense records the private individual shall record only taxable incomes and eligible expenses.

4.3. The revenue and expense records shall contain at least the following data:

- a) serial number;
- b) date of economic event;
- c) serial number of the accounting document;
- d) brief description of the economic event (in particular the amount of consideration, purchase of materials);
- e) payer's name (corporate name) and tax number (this provision does not apply to private entrepreneurs);
- f) amount of income;
- g) tax advance deducted;
- h) amount of expense(s);
- i) net income.

5) Revenue records

5.1. The private individual required to keep basic records shall have the option to discharge this obligation by keeping revenue records if in the tax year the private individual

- a) is not using itemized cost accounting (or the entrepreneurial income taxation system if a private entrepreneur), and
- b) is not entitled to deduct value added taxes or is not exercising this right, and
- c) is entitled to assess his tax by the simplified system if engaged in permanent commercial activities subject to local business taxation.

5.2. The revenue records shall contain at least the following data:

- a) serial number;
- b) date of receipt of the income;
- c) serial number of the accounting document;

d) payer's name (corporate name) and tax number (this provision does not apply to private entrepreneurs);

e) amount of income;

f) tax advance deducted;

g) net income.

6) Sales ledger

6.1. Small-scale agricultural producers required to keep basic records shall have the option to discharge this obligation by keeping a sales ledger comprising part of the small-scale producer license in which to record the income received as consideration from agricultural activities, if entitled to keep revenue records in the tax year.

6.2. Entries to the sales ledger may be made by the small-scale agricultural producer or by the payer in his stead, subject to the conditions laid down in this Act in the government decree on small-scale agricultural producer's license.

6.3. Small-scale agricultural producers shall quarterly calculate the total of their income from agricultural activities received during the quarter from entities other than payers, and also those in connection with which they have issued a statement to the payer for entering it in the sales ledger themselves. The sales ledger shall indicate the income totaled according to the above up to the last day of the quarter. Small-scale agricultural producers shall retain these statements attached to the small-scale producer's license in accordance with the regulations on retaining accounting documents.

II. Detailed Records

A private individual shall be required to keep only the detailed records which are necessary for determining his taxable income.

1) Records of trade (customer) receivables

Private individuals shall keep records on accounts receivable from the delivery of goods and materials, etc., work performed and services rendered, and the amounts actually received as such. Receivables from the supply of goods and from the provision of services, also including value added tax, shall be shown in the records, in amounts acknowledged by the buyer, in chronological order as per the relevant invoices issued. The changes, if any, in the invoice amount shall be entered in the records as well.

The records shall include the following data:

- number and date of invoice,
- name of buyer (customer),
- grand total of invoice and the applicable value added tax,
- method, date and amount of payment received.

Payment information shall be recorded at the time of receiving payment for invoices in the records, while the revenues received shall be registered in the basic records.

2) Records of accounts payable

Private individuals shall keep records of accounts payable from the delivery of goods and materials, etc., from services rendered, and the amounts remitted for the settlement of such accounts.

The debts from the supply of goods and services, also including value added tax, shall be shown in the records, in the amounts acknowledged and in chronological order as per the relevant invoices. The changes, if any, in the invoice amount shall be entered in the records as well. The records shall include the following data:

- number and date of invoice,
- name of supplier,
- grand total of invoice and the applicable value added tax,
- method, date and amount of payment remitted.

The data of the invoices received shall be entered into the records daily.

Payment information shall be recorded at the time of remittance of payment on the invoices in the records, while the paid amount shall be indicated in the basic records.

3) Records of tangible and intangible assets

Small-scale agricultural producers and private entrepreneurs shall keep individual records on their own tangible and intangible assets used for operations, including the tangible and intangible assets where the

expenses pertaining to the purchase or manufacture of which may be claimed as costs when incurred. The amount of depreciation write-off can be established using these records.

The records shall include the following data:

- description of the tangible and intangible assets,
- in respect of machinery or equipment, the name of manufacturer, year of manufacturing and the serial number,
- date of commissioning (placing into operation),
- date of alienation, or (as indicated in the pertinent protocol) obsolescence retirement or destruction,
- rate of depreciation write-off,
- the basis for the calculation of depreciation,
- the adjusted basis for the calculation of depreciation,
- the amount of depreciation carried over from previous years,
- the amount of depreciation applicable as cost in the tax year,
- net value calculated taking into account the depreciation write-off,
- the amount of small business allowance and the tax year when claimed.

Reductions in value resulting from sale, obsolescence retirement or destruction shall be removed from the records on the basis of the relevant documents.

4) Records of investment and renovation costs

Small-scale agricultural producers and private entrepreneurs shall keep individual records on the costs incurred in connection with tangible and intangible assets used for such activities up to the time these assets are put into operation, with the exception of expenses on tangible assets whose individual value is less than 50,000 forints. These records can be used to determine the items that serve as a basis for depreciation and those that modify the entrepreneurial dividend base.

The records shall include the following data:

- description of the tangible and intangible assets,
- the amount of expenditures representing investment costs, broken down by date and totaled,
- the amount withdrawn from the entrepreneurial dividend base, broken down by date and totaled,
- the date of commissioning,
- the investment costs at the time of commissioning (the base of the depreciation write-off),
- to total amount of expenditures which were withdrawn from the entrepreneurial dividend base and which constitute investment costs, up to the time of commissioning,
- the amount of expenditures representing a portion of renovation costs following commissioning, broken down by date,
- the time of modifying the depreciation write-off, by the date,
- the adjusted depreciation write-off base,
- date of alienation, or (as indicated in the pertaining protocol) obsolescence retirement or destruction,
- the amount of small business allowance and the tax year when claimed.

5) Records of securities and rights in securities

a) Private individuals shall keep records of all securities that they own or that are in their possession, as well as on the purchase, subscription, sale or other similar right in such securities. These records shall be supported by the certificates issued by the investment service providers, if the securities are deposited at an investment service provider (or if the securities records are maintained by the investment service provider in their behalf), and these certificates shall contain all of the data and information that are necessary for fulfilling tax obligations and for controlling compliance with such obligations.

b) The above-specified securities records shall contain the following:

- the securities code;
- description of the securities (for example, investment certificate and other collective investment in transferable securities, bond, stock, share, capital contribution);
- type of security (bearer or registered);
- class of security (such as interim share, ordinary share, dividend preference share, employee stock, employee share, interest-bearing share, convertible bond, bonds attaching subscription rights);
- name (corporate name, designation) and address of the issuer;
- date of issue;
- nominal value of the security;
- date of acquisition;

- indication of the right attaching to the security if the acquisition or transfer took place by way of the exercise of a purchase, subscription, sale or other similar right;
- value invested for the acquisition of the security
- = number or other code of the respective invoice,
- = date of payment,
- = amount paid;
- income paid on the security (for example, interest, dividend)
- = date of receipt,
- = amount;
- date of transfer (including retirement, conversion, exchange, overstepping, redemption);
- proceeds from transfer
- = date of receipt,
- = amount;
- income from transfer.

c) If, according to the provisions of this Act, the acquisition value of securities that were obtained by way of the transfer or conversion of securities is to be determined on the basis of and as consistent with the acquisition value of the transferred or converted securities, then it shall be so indicated when closing out the records of such transferred or converted securities and when opening the records for the acquired securities.

- d) The records of rights in securities shall contain the following:
- description of the right;
 - the securities code, if known;
 - description of the security;
 - type of security;
 - class of security;
 - name (corporate name, designation) and address of the issuer;
 - date of issue, if known;
 - date of acquisition;
 - name (corporate name, designation) and residence or corporate address of the person establishing the right;
 - value invested for the acquisition of the right;
 - number or other code of the respective invoice,
 - date of payment,
 - amount paid;
 - date of transfer (including assignment, termination, endorsement or waiver of such right);
 - proceeds from transfer;
 - income from transfer,
 - date of receipt;
 - amount;
 - date of exercise of right.

6) Records of wages, other personnel expenses and entrepreneurial withdrawals

Private individuals shall keep records on the amounts paid to employees, family workers and other private individuals, as well as debts and receivables separately for each person. In addition to the tax identification data of the private individuals concerned, these records shall contain the various amounts, without deductions, paid to private individuals as subject to personal income tax, the personal income tax advance deducted, pension contribution, employees' contribution, other deductions, the amount paid, as well as the date of payment, and all other information necessary for determining the actual amount of the personal income tax at the end of the year, when applicable. Private entrepreneurs shall duly apply the above-specified provisions to keep records on the information in connection with entrepreneurial withdrawals.

7) Records of motor vehicles (mileage logs)

Private individuals shall be required to maintain mileage logs for the expense accounting of motor vehicle(s) used for gainful activities. For this purpose, it is sufficient to keep travel records if containing the data detailed below.

A separate mileage log shall be maintained for each motor vehicle. The mileage log shall include the model of the motor vehicle, its license number, and the applicable fuel consumption rate. The odometer

reading on the first and last day of the year shall be indicated in the mileage log, and if required for the expense accounting, such readings shall be recorded monthly.

The mileage log shall include:

- the date of travel,
- the destination of travel (from where to where did the travel take place)
- the name(s) of the business partner(s) visited,
- the number of kilometers covered on public roads.

The mileage log may also contain the date and amount of fuel purchases related to the prior. Where a private individual who is required to maintain a mileage log is required to indicate - in the course of carrying out his activities under confidentiality requirements on the strength of law (e.g. medical practice) - in the mileage log the personal data of any private individual in respect of whom the confidentiality requirement applies, the travel made to such persons shall be recorded separately. As regards these separate mileage logs, the person required to keep them shall ensure that, apart from the officer of the tax authority carrying out the inspection, no third party is allowed to have access to such records. The tax authority shall be entitled to record the data contained in such mileage logs only if presented as evidence in connection with an infringement in the course of the proceedings of the tax authority.

8) Records of goods surrendered or received for sale on credit or on consignment

Both the transferor and the transferee shall keep records on goods transferred for sale on credit or on consignment.

The data shall be entered into the records on the basis of the delivery certificate issued on the delivery or receipt of goods.

The document issued on the delivery or receipt of goods shall include inter alia the following:

- the description 'Acknowledgment of receipt of goods transferred on consignment (credit)',
- name and address of the transferor, and his tax identification number,
- name and address of the transferee and his tax identification number,
- description, quantity, unit price and value of the goods transferred, as well as customs tariff number (at least to the extent necessary for establishing the value added tax),
- date of delivery,
- date of settlement,
- signatures of transferor and transferee, both.

The transferee, with regard to the obligation to pay value added tax, shall settle accounts for the goods actually sold with the transferor on the last day of each month. The transferor shall issue an invoice on the goods sold and, on the basis of such invoice, the transferor and the transferee both shall adjust the records of goods delivered and received on credit or on consignment. A delivery/receipt document shall be issued on the goods unsold and returned to the consigning party, and both the transferor and the transferee shall update its records based on data contained in such document. The delivery/receipt document shall contain the same information as the 'Acknowledgment of receipt on goods transferred on commission (credit)'.

9) Records of other outstanding receivables and liabilities

Private individuals shall also keep records of other outstanding receivables and liabilities, to include all receivables and liabilities which are not shown under trade receivables or accounts payable.

These records shall contain the following:

- description and the debtor or beneficiary of the receivable or liability, respectively,
- date of the receivable or liability,
- value of the receivable or liability,
- the information on settlement shall be recorded at the time of settlement, and the revenues received or the paid amount shall be entered in the basic records.

10) Assets disposal records

Private individuals shall keep records of the disposal of assets whose value is 50,000 forints or less in place of discarding protocols.

These records shall contain:

- the date when disposed,
- description of the asset,
- the reason for disposal,
- the quantity and fair market value of the assets disposed.

11)

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13) Inventory

Inventories of purchased stocks and stocks of own production shall be taken on 31 December or, if the activity is terminated, on the day of termination, as per the following categories:

- materials (raw materials, auxiliary materials, fuels and heating materials),
- assets not used in operations (tools, instruments, equipment, accessories, work clothing, protective clothing),
- tangible assets used in operations and valued at less than 100,000 forints (or less than 30,000 forints if purchased between 31 December 1991 and 1 January 2001, or 50,000 forints if purchased between 31 December 2000 and 1 January 2006),
- goods (stocks of commodities),
- redeemable packaging materials,
- subcontractors,
- inventories of goods of own production:
 - = unfinished production,
 - = semi-finished and finished products.

Private individuals not paying VAT in accordance with the common provisions shall enter in the inventory records:

- materials purchased, unused assets valued under 100,000 forints (or under 30,000 forints if purchased between 31 December 1991 and 1 January 2001, or 50,000 forints if purchased between 31 December 2000 and 1 January 2006), and the goods shall be registered at their last purchase price with VAT included, while goods from the previous year shall be registered at the value indicated in the opening inventory;
- tangible assets used in operations and valued at less than 100,000 forints (or less than 30,000 forints if purchased between 31 December 1991 and 1 January 2001, or 50,000 forints if purchased between 31 December 2000 and 1 January 2006) shall be recorded at a value equal to 50 per cent of the purchase price with VAT included;
- semi-finished and finished products of own production (in particular, machines, tools manufactured, overhauled or reconstructed by the private individual) shall be entered at the prime cost, showing the substantiated combined sum of material costs and the value of work performed by others.

Private individuals who pay VAT in accordance with the common provisions (the first sentence of Point 1 of Schedule No. 4) shall enter in the inventory records:

- materials purchased, assets not used in operations that are valued at less than 100,000 forints (or less than 30,000 forints if purchased between 31 December 1991 and 1 January 2001, or 50,000 forints if purchased between 31 December 2000 and 1 January 2006), and goods shall be recorded at their last purchase price (excluding VAT), while goods from the previous year shall be recorded at the value indicated in the opening inventory;
- tangible assets used in operations and valued at less than 100,000 forints (or less than 30,000 forints if purchased between 31 December 1991 and 1 January 2001, or 50,000 forints if purchased between 31 December 2000 and 1 January 2006) shall be recorded at a value equal to 50 per cent of the purchase price (excluding VAT);
- semi-finished and finished products of own production (e.g., machines, tools manufactured, overhauled or reconstructed by the private individual) shall be entered at the prime cost, showing the substantiated combined material costs and the value of work performed by others.

14) Records of subcontractors

A private individual performing his activities as a prime contractor shall keep records on all subcontractors and the amounts paid to such subcontractors.

The records shall show the data of all subcontractors' invoices settled in cash, or in other ways.

The records shall include the following data:

- number and date of invoice,
- name, address and tax number of the subcontractor,
- final amount of the invoice,
- amount of tax advance deducted,
- date, method and amount of settlement.

15) Records of strict accounting documents

The records of strict accounting documents shall contain the following data:

- description and numerical sign of the form,
- date of acquisition,

- serial number (from. to.) of the pad(s),
- date of first use,
- date of being used,
- date of discarding.

For the purposes of this Act strict accounting documents shall be understood as those classified as such by the Accounting Act.

III. Obsolescence retirement

A discarding protocol shall be issued as proof that tangible assets, intangible assets and articles whose value is 50,000 forints or less have been discarded, and such protocol shall contain the reason for disposal. Assets not destroyed in the course of the discarding process shall have an irremovable identification label affixed.

IV.

V. SPECIAL PROVISIONS

Upon request by a private individual engaged in self-employment activities, the tax authority may grant exemption, if substantiated, from keeping the records prescribed in this Schedule, if

a) the applicant proves in accordance with the provisions of the legal regulations on the classification and substantiation of severe disabilities that the fulfillment of this obligation cannot be expected of him due to the nature of his severe physical disability, and that his relatives living in the same household are also unable to keep such records, furthermore,

b) exemption from the obligation to issue receipts may otherwise be granted in accordance with the conditions defined in the Act on Value Added Tax.

Schedule No. 6 to Act CXVII of 1995

Small-scale agricultural activities

I. Small-scale agricultural production activities shall include the growing of plants, orchards, breeding of animals, and processing of products at an individual's farm, if this occurs using base materials which are themselves produced at the farm, the collection of certain agricultural products at an individual's own farm which does not violate the law, and forestry activities conducted in an individual's own forest area, if, in respect of all of the aforementioned activities, the product produced or the activity falls under either of the categories listed in Point II to this Schedule.

a) In the event of the collection of agricultural products, an individual's own farm shall mean at least the oral permission of the party exercising the rights to the area and the entitlement of the individual to use the results of the collection.

b) Revenues generated from the sale of flowers and ornamental plants - except for roses under tariff heading 0602 40, also if grafted - grown at an individual's own farm may be considered as originating from small-scale agricultural activities, if such revenues do not exceed 250,000 forints annually. If such revenues exceed the aforementioned amount, the entire revenues are not considered originating from small-scale agricultural activities, however, if the private individual has obtained a small-scale agricultural producer's license in connection with this activity or other activities, the provisions pertaining to small-scale agricultural producers may be applied in respect of the payment of consideration as well.

c) The sale of grape-must, concentrated grape-must, or grape-wine produced from grapes grown at a private individual's own farm shall be considered a small-scale agricultural activity, if the private individual sells the products in containers up to 0.5 liter (to payers and/or end-users in a wine bar) in the given year and if the revenue from the sale of such products is not more than 7 million forints annually. If such revenue is in excess of 7 million forints or if these products have not been sold exclusively in accordance with the prior, none of the revenue shall be regarded as originating from small-scale agricultural activities. If the private individual has obtained a small-scale agricultural production license in

connection with such activities or other activities, the provisions pertaining to small-scale agricultural producers may also be applied to the payment of a consideration, if the revenue is in excess of 7 million forints. If the private individual sells any other product that is not produced by himself and/or provides services in his own wine bar, then the proceeds from and expenses of small-scale agricultural activities shall be recorded separately from the other proceeds and expenses with the understanding that if any expense relates to various marketing activities, it shall be divided in proportion to the revenue, unless otherwise prescribed in this Act.

II. Products and activities of small-scale agricultural producers

A) Animals, animal products No. Description Customs tariff heading

1. Live animals (including bee under 0101-0106, under colonies, queen bees, pupae, 0301, under 0306, under and swarms) excluding: 0307
saddle horses, race horses, dogs, cats, laboratory animals, virus and serum animals, pets and zoo animals, wild game and species living in game parks, protected animals and species whose capture is forbidden
2. Milk and milk products 0401-0406
3. Bird eggs in the shell excluding: 0407
breeding eggs for therapeutic purposes, eggs of birds living in the wild
4. Natural honey (including 0409
comb honey, homemade and other natural honeys)
5. Products of animal origin: 0502-0503, under 0505, under 5101, unprocessed animal fur for non-textile 5102
industry purposes, unprocessed feathers cleaned at most, unprocessed wool, unprocessed fine or rough animal fur
6. Unprocessed bees' wax and under 152190 91 00 under residual products 152200 99 00
7. Propolis (bee gum), and under 130190 90 99 under Royal jelly Raw pollen Bee 0410 under 121299 80 00
venom Bee products not under 300190 99 00 under elsewhere classified 210690 98 99

B) Plants, plant products No. Description Customs tariff heading

8. Live plants excluding: reed- under 0601, under 0602
grass, seaweed, and algae
9. Flower, buds, leaves, branches and 0603, under 0604
other plant parts for the purpose of making decorations or wreathes excluding: moss, lichens, branches of coniferous trees
10. Vegetables, fresh, under 0701-0714
refrigerated, frozen, temporarily preserved or dried edible roots and tubers, also cleaned, harrowed, peeled, cut, and pitted vegetables, potatoes

11.	Fruits and nuts, as well as fresh, refrigerated, frozen, temporarily preserved or dried edible rinds of citrus fruits and melons, also cleaned and processed fruits cut in quarters or halves	0801-0814
No.	Description	Customs tariff heading
12.	Herbs and spices: Ground paprika Juniper berries Saffron Thyme Anise seed Caraway seed Dill seed Other domestic herbs and spices	under 0904 20 under 0909 50 0910 20 under 0910 40 0909 1000 0909 30 under 0910 99 under 0709 90 under 1211 90
13.	Cereal grains, wheat, rye, barley, oats, maize, rice, sorghum, buckwheat, millet, canary seed, triticale and other hybrids excluding: those processed by the milling industry	1001-1005, 100610, 1007-1008
14.	Oil seeds and oleaginous fruits: Soya beans, peanuts, linseed, rapeseed, sunflower seed, castor beans, mustard seed, saffron seed, poppy seed, hempseed	1201-1207
15.	Seed for sowing, fruits or spores for propagation	1209
16.	Industrial plants: - hops and lupulin, - plants and parts of plants, if such are raw materials for the perfume industry, pharmaceutical industry, pesticide and similar industries (angelica root and seed, ergot of rye, basil, quince seed, great burdock, borage, Siberian squill bulb, walnut leaf, absinth, mugwort, elder, pine bud, galangal root, dandelion, woolly foxglove, linden flowers and leaves, hellebore, cornflower, hyssop, chamomile buds, pasque-flower, valerian, poppy-head, thorn apple, mint, pyrethrum, belladonna, iris, horehound, mullein, mallow, rosemary, rose petals, rue leaves, bitter-apple, sweet woodruff, coot root, gentian, plantain, wild marjoram, vervain, speedwell, bogbean, sage, etc.,) domestic herbs - carob,	1210 under 1211 under 1212 1213 1214

		sugar beet, sugar cane, apricot and plum pits, unroasted chicory root - cereal straw and cereal glume - forage crops: rutabaga, cattle-turnip, field beet, mangel-wurzel, hay, alfalfa, clover, Burgundy hay, feeding kale, lupin, vetch	
17.		Raw materials for weaving or for the production of brooms or rushes: reeds, sedge, willow branches	1401, 1403
18.		Processed (permanently preserved or conserved, or instantly edible) vegetables, fruits and nuts	2001-2009
	19.	Grape-wine excluding	under 220429
		22042999	
20.		Grape-must	2204 30
	21.	Vegetable products for animal fodder: acorn, wild chestnuts, maize cob, maize stalk, maize husks, maize blade, beet top, vegetable rinds, fruit waste, etc.	2308 00 40, under 2308 00 90
	No.	Description	Customs tariff heading
22.		Unprocessed tobacco, dried as well, but not pickled or fermented, waste tobacco	under 2401
23.		Organic fertilizers	3101
24.		Grape vine	under 4401
25.		Stakes, piles, pegs, poles, rods, etc. produced solely by splitting wood	under 4404
26.		Flax and hemp (Cannabis sativa L), unprocessed	under 5301, under 5302
27.		Christmas tree	under 0604
28.		Lees, raw tartar	under 2307
29.		Marc	under 2308

C) Activities 1. Forestry and forestry products

2. Planting, as a result of which the plants remain in the soil for at least one year after planted to provide a base for production

3. Production, processing and sale of foodstuffs by smallholders as specified in specific other legislation

D) For 1999 such products and services defined as a supplement to those listed in Points A)-C) by a government decree.

III. The following regulations apply to joint small-scale agricultural activities:

a) The joint license of family members engaged in joint small-scale agricultural activities shall be issued to the name of the family member unanimously designated in the joint statement.

b) The joint license shall contain, based on unanimous consent, the identification data of the other family members issuing the joint statement.

c) A small-scale agricultural producer engaged in such activities on the basis of a joint license shall determine his revenues from the activities, and if using itemized expense accounting, his related expenses by dividing the total of revenues and expenses by the number of family members involved, whereby the

documents to verify revenues or expenses may be issued to the name of any family member. By way of derogation from the above, the family members engaged in joint activities on the basis of a joint license may claim vehicle expenses only if using the same accounting method, however even from the invoice (invoices) issued to either family member's name and to the vehicle's license plate number, only such issued to the family member who is otherwise eligible for vehicle expense accounting in accordance with the provisions of law.

d) Family members engaged in joint small-scale agricultural activities shall satisfy their tax obligations separately, with due consideration of the provisions of Paragraph c) as well.

e) the private individual who qualifies as a family estate farmer on the last day of the tax year (or on the day of termination of activities in a family homestead where applicable) in accordance with the Arable Land Act and the family members of such private individual participating in the family homestead in a form other than employment shall apply the provisions laid down in Paragraphs c)-d) and in Subsection (2) of Section 78/A with regard to their small-scale agricultural activities.

Schedule No. 7 to Act CXVII of 1995

Schedule No. 8 to Act CXVII of 1995

Schedule No. 9 to Act CXVII of 1995

Privatization Leasing

1) The face value (the value as per the assets registered by the court of registry at the time of conclusion of the lease contract) of the privatized property share (stocks, business shares) of the leased company shall be considered as revenues (and income in its entirety) from a privatization lease contract, as described in Sections 50-52 of the Act on the Sale of State-Owned Entrepreneurial Assets, or if it is higher, the consideration for the aforementioned property share.

2) The amount paid by the private individual from his own after-tax income as the lease price, for the purpose of acquiring the privatized property share, shall not constitute a part of the face value or of the consideration. In respect of the partial sale of the property share, the proportionate part of the face value or of the consideration, and of the lease price paid from taxed income shall be taken into account.

3) The recording obligation of the private individual shall commence at the time of conclusion of the lease contract. The records shall contain:

a) the amount, charged by the leased company on the grounds of management and organizational services, as extraordinary expenses, and remitted to the seller,

b) the amount remitted to the seller from the private individual's own after-tax income as the lease price,

c) amount(s) paid by the company to the private individual on any grounds whatsoever which is (are) not included in Paragraph a), and which is (are) considered as taxable income in the year of payment.

4) The tax payment obligation of the private individual commences in the year when he alienates, in any manner whatsoever, the property share, or a part thereof, transferred to his ownership by the seller, or when the company leased by him is dissolved without legal successor. In the latter case, consideration shall be considered as revenue even if less than the face value.

5) The rules of taxation on capital gains shall be applied concerning the payment of the tax.

6) On the basis of the provisions of Points 1-5, the amount charged on grounds of management and organizational services, as extraordinary expenses, and remitted as the lease price by the leased company, shall not be considered as revenues (and income) concerning the private individual leasing the company, and this amount may not be claimed as costs by the private individual.

Schedule No. 10 to Act CXVII of 1995

Accounting the revenues of private entrepreneurs

In addition to the provisions of Chapter X, the revenues contained in this Schedule shall be also be taken into consideration when establishing the entrepreneurial tax base.

I. Revenues typically arising

The following shall be regarded as revenues particularly within the framework of the activities, or in connection therewith:

1) amounts received as consideration for products, goods and services supplied, or those received as advance thereof, or settled by a bill of exchange, consideration received in kind (with markups, discounts, price subsidies and consumer taxes included in all cases), furthermore, any extra charges for shipping or delivery or packaging of the goods;

2) the consideration or fair market value (if the latter is greater) received upon the sale of tangible assets used exclusively as operational assets, also including retired tangible assets, intangible assets, materials, semi-finished products (hereinafter referred to collectively as "property assets"), if the private entrepreneurial showed the purchase or production costs of such assets among his expenses in any year, or wrote off the depreciation allowance thereof, whereby for the taxation of the income received for a movable property, real estate or rights in immovables which was used not exclusively for business purposes upon being sold, the provisions of Chapter XI shall be applied for the entirety of such income;

3) interest received (particularly the interest credited to the domestic current account);

4) amounts received as indemnity, default interest, fine and penalty, as well as amounts received as refunds of paid indemnity, interest, fine and penalty, unless claimed as costs earlier;

5) subsidies received (including any uniform territorial assistance), with due consideration of the provisions of Chapter X as well;

6) the fair market value of manufactured or purchased products and services rendered or purchased, if used by the private entrepreneur for his own purposes or surrendered partially or fully to others without a consideration, in case the private individual claimed the related costs in any year; however, the value of using the products for own purposes or fully or partially surrendering them to others without consideration shall not be added to revenue, if the private entrepreneur

a) did not claim the related costs among his expenses, if he deducted such costs from the total of his expenses, or if he provided the product or services as a benefit in kind,

b) donated the product or service in connection with a natural disaster or other emergency;

7) in respect of the transfer of tangible assets valued over 100,000 forints - or 50,000 forints if purchased before 1 January 2006 - exclusively used for operational purposes, without consideration, if the value of such assets was accounted in one amount by the private entrepreneur, unless provided as an in-kind contribution, within the following period of time from the date of purchase

- 100 per cent of the acquisition value, within one year,

- 66 per cent of the acquisition value beyond one, but within two years,

- 33 per cent of the acquisition value beyond two, but within three years,

- zero per cent beyond three years;

8) refunds of the difference of tax and of social security contributions, etc., if the private entrepreneur claimed the payment of such as a cost in any year;

9) the indemnification received for damages, including the amount received on the basis of liability insurance;

10) the value of insurance payments, if the private entrepreneur claimed the premium paid on such policy as cost;

11) positive difference accumulated due to the application of the rules of rounding off.

12) All proceeds received by the private individual in connection with the sale (permanent transfer) of real property or rights in immovables, from the termination of rights in immovables or waiver of such rights (hereinafter referred to as "transfer of real property or rights in immovables") within the framework of private entrepreneurial activities shall be considered as income; this covers, in particular, the selling price, the fair market value, effective on the day of transfer, of an asset received in exchange, and also the value of the real estate or rights in immovables if it is furnished in the place of a capital contribution to a business association or other firm (as a contribution in kind) in the amount indicated in the articles of association of the business association or another similar document, plus the amount previously claimed as

the base for the residential housing allowance where this liability derives from the application of the provisions in income from the transfer of real property or rights in immovables.

II. Revenues in connection with the termination of private entrepreneurial activities

The following shall be considered entrepreneurial income for the year when the activities are terminated as received on the day of termination:

1) the inventory value of all stocks (materials, goods, semi-finished and finished products) available at the time of termination and previously claimed as costs, and the inventory value of tangible assets (including spare parts and production equipment) worth less than 100,000 forints - or 30,000 forints if purchased between 31 December 1991 and 1 January 2001, or 50,000 forints if purchased between 31 December 2000 and 1 January 2006;

2) the consideration received in return for relinquishing the right of use or lease of shops, workshops, offices or any other real estate which is exclusively used for gainful activities, also if the private individual has not yet received it by the date of termination, if the private individual claimed the costs of acquiring the right of use or lease among his expenses in any year, whereby if the amount of consideration is still unknown in the year of termination, the amount spent to acquire the right of use or lease of the real estate shall be taken into account as income;

3) The income received by a private individual in connection with his entrepreneurial activities, or by his/her widow or heir if the entrepreneurial activities are not carried on, following the termination of his legal status as a private entrepreneur shall be treated as income from self-employment activities, and the corresponding tax liabilities (including the calculation of income) shall be satisfied accordingly. The health care contribution established - on the entrepreneurial dividend base - on the basis of the tax return for the year of termination (or the self-audit thereof) shall not be claimed as expense.

The expenses incurred before the filing of an internal tax return or before the date of extraordinary tax assessment may be claimed from the entrepreneurial income generated during the year when the private entrepreneur terminates his legal status as a private entrepreneur. The income received by a private individual in connection with his previous entrepreneurial activities, or by his/her widow or heir if the entrepreneurial activities are not carried on, following the termination of his legal status as a private entrepreneur shall be treated as income from self-employment activities, and the corresponding tax liabilities (including the calculation of income) shall be satisfied accordingly. The health care contribution established - on the entrepreneurial dividend base - on the basis of the tax return for the year of termination (or the self-revision thereof) shall not be claimed as expense.

III. Miscellaneous provisions

1) The remuneration of and the advance received by, an independent bailiff shall be regarded as revenues as of the date of completion of the schedule of charges. The expenses incurred in respect of such revenues may be claimed as of the aforementioned date.

2) The uniform territorial assistance referred to in Point 5 of Chapter I of this Schedule shall be treated as income for the year when received.

3) By way of derogation from the provisions contained in Point 2 private individuals may claim the uniform territorial assistance received during 2005 as income for the year when received and for the following year in the percentage they have decided.

4) If the private individual is required to repay the uniform territorial assistance, the amount repaid shall be deducted from the income shown for the tax year when the repayment was effected.

Schedule No. 11 to Act CXVII of 1995

Claiming entrepreneurial expenses

Private entrepreneurs using the entrepreneurial income taxation system, for calculating the entrepreneurial tax base and to determine entrepreneurial expenses, shall apply the provisions of this

Schedule, with due consideration of the general provisions of this Act on approved expenses and on the claiming of expenses as well.

The tangible and intangible assets used by a private individual exclusively in connection with his self-employment activity (activities) that are not used for other purposes to any extent whatsoever, and such use is clearly supported by his business records, shall be regarded as operational assets. Passenger cars may not be regarded as tangible assets used exclusively for business purposes.

Private entrepreneurs may claim the following expenses:

- a) entrepreneurial withdrawals;
- b) expenditures directly related to the gainful activity, and advances paid;
- c) the depreciation allowance of tangible and intangible assets;
- d) expenses for the purchase of materials and goods, if used subsequently for the activities, if purchased not more than three years prior to the commencement of such activities for the very first time and if such expenses were not claimed as costs previously, also his other expenses incurred in connection with the commencement of such activities in the year of commencement, and may begin writing off the depreciation allowance of tangible and intangible assets acquired not more than three years previously.

In respect of the tangible and intangible assets used for more than one activity within the framework of self-employment, the private individual shall be entitled to choose which activity he can claim as a verifiable expense, as prescribed in this Schedule, against revenue. The expense (depreciation allowance until fully retired) may not be divided among the revenues of different activities.

I. Costs typically arising

The following expenditures may, in particular, be claimed as costs:

1) expenditures on the purchase of materials and goods, as well as for packing materials (less the consideration received for redeemable packing material when returned to suppliers), shipping and delivery costs;

2) expenditure of less than 100,000 forints on the purchase or manufacture of tangible and intangible assets used exclusively in operations and the costs of repair and maintenance for the continuous, uninterrupted and reliable operation, irrespective of the acquisition value, of tangible and intangible assets used exclusively in operations, with the understanding that the provisions of Chapter III shall be applied with regard to vehicles;

3) the following sums payable to private individuals employed by a private entrepreneur (hereinafter referred to as "employee"):

- a) wages paid and the public dues on such wages;
- b) the total of the face values of public dues certificates obtained to cover the wages paid in connection with the employment - in accordance with specific other legislation - of the employee with a temporary employment book and made out to the name of a private individual employer in a form suitable for accounting purposes, that is also indicated in the temporary employment book and in the prescribed records;
- c) mandatory allowances and payments due to the employee and payable by the employer as prescribed by law or on the basis of the collective agreement or employment contract;
- d) supplement of the employee's private pension fund membership fee on the basis of unilateral assumption of obligation;

sums paid by agreement to other private individuals for the purpose of providing income to be applied as a pension base and service time for the purpose of eligibility for pension benefits, and private pension fund membership fees;

4) the amount paid to a family worker over the age of sixteen, but not more than an amount of the prevailing mandatory minimum wage, provided that such family worker works at least 40 hours a week (full-time family worker) or if working less hours a proportionate part thereof, with the understanding that the full-time family worker shall otherwise be considered an employee exclusively in respect of Point 3;

5) the premium payments on the insurance policies naming an employee as the beneficiary, and the employer's contributions, and the public dues on such contributions, paid to a voluntary mutual insurance fund by a private entrepreneur on behalf of an employee;

6) one's own social security contribution paid not on the basis of an agreement, contribution for accidental injuries;

7) the membership fee or a similar corresponding amount paid to a public body, and the membership fees paid to a non-governmental organization if it provides interest representation services in connection with self-employment activities;

- 8) guarantee and warranty costs, as confirmed by the customer or purchaser;
- 9) the paid premiums of property, liability, life and accident insurance policies for security in connection with the revenues and the conditions thereof, in respect of life insurance if the private entrepreneur did not receive any tax allowance on such grounds;
- 10) the interest paid on bank loans (credits) borrowed in connection with entrepreneurial activities, excluding the interest that is comprised in the purchase price of tangible assets;
- 11) taxes paid during the tax year to the state budget, central funds, and local self-governments exclusively in connection with the given activity, duties, official fees, customs duty, customs clearance fees, court charges, default interest, penalties and self-revision surcharge, unless included in the purchase price of a tangible asset;
- 12) rental of shop, workshop, farm building or office, costs of heating, lighting and technological energy, telephone charges, mobile telephone, fax, CB radio and telex fees (if the dwelling and the business premises are not technically detached, the expenditures may be claimed as a proportion of the activity on the basis of the units of measurement applicable to the given costs, such as day, square meter, cubic meter, etc. furthermore, internet charges (if the dwelling and the business premises are not technically detached, fifty per cent of internet charges may be claimed as cost);
- 13) the price of telephone, mobile telephone, fax, CB radio and telex units and the applicable installation fees if installed in the business premises, whereby fifty per cent of the price of the telephone set and the installation fee may be claimed as cost if the dwelling and business premises are not technically detached;
- 14) the telephone development contribution, as well as the amount of public utility development contribution minus the portion refunded by the local self-government, with the exception that if the equipment serving as the basis for the contribution is installed in a location which is not technically detached from the dwelling, the difference between the higher contribution paid by the private entrepreneur and the sum otherwise payable by a private individual in such case may be claimed as cost;
- 15) the costs of specifications and blueprints, fees of subcontract work, payments to subcontractors and service charges (such as advertisement costs);
- 16) the costs of work clothing products listed in Schedule No. 1; protective devices; and occupational safety, accident prevention, and environmental protection equipment;
- 17) the expenses, and the public liabilities thereon, of in-kind benefits provided to a private individual, paid company car taxes, and the personal income tax paid at an interest rate discount;
- 18) expenses incurred in connection with any aid received under legal regulation or international agreement if used for the private entrepreneurial activities in harmony with the said legal regulation or international agreement, also if it serves the personal or family needs of the private individual in whole or in part (however, if the aid covers only a part of the expense, it may be claimed under this provision only to the extent that is covered by the aid);
- 19) the costs of travel and accommodations for official and business trips and the costs of travel, accommodations in respect of foreign assignments, furthermore, the expenses recognized under Point 7 of Chapter II of Schedule No. 3, entitled 'Costs which may be claimed without substantiation' in connection with activities underlying entitlement for claiming expenses without substantiation in the case of foreign assignment, whereby the provision of this Point may not be applied if established, even if indirectly, on the basis of the actual contents of the travel documents and the applicable circumstances (arrangements, advertisement, promotion, travel route, destination, duration of stay, ratio of actual business related and free programs. etc.) that the official or business nature of such travel is fictitious;
- 20) in respect of the employee of a private entrepreneur, if any, the provisions of Point 19 shall be applied concerning the business travel of such employee also;
- 21) from the amount paid under a lease contract, for the lessee, only the monthly lease payment as prorated on basis of the lease term and the total lease charges and other related costs, not including value added tax, of tangible and intangible assets used solely for business purposes, with due consideration of the provisions of Points III/7-8 as well, but not more than an amount equal to 3 per cent per month of the total lease charges, or 1.1 per cent in respect of real estate, and/or the amount calculated for the tax year on the basis thereof;
- 22) in respect of the sale of tangible and intangible assets used exclusively for business purposes (even if they have been discarded, destroyed, or surrendered without compensation), the depreciation allowance

not written off by the date of sale may be claimed as a cost, or in respect of tangible and intangible assets which cannot be depreciated, the investment expenses recorded at the time of sale may be claimed as a cost;

23) private entrepreneurs may claim expenses without substantiation by duly applying the provisions of Schedule No. 3 pertaining to expenses to be claimed without substantiation;

24) the surplus accumulated when applying the rules of rounding off may be claimed as cost among expenses;

25) the amount paid by a private entrepreneur operating a division of an economic organization under contract, as described by law, to the economic organization on the basis of a legitimate contract (agreement);

26) expenses typically incurred by private individuals engaged in artistic activities, such as entry fees paid for visiting a show, exhibition, museum or public collection in connection with such activities, also the expenditures on a device, image or sound carrier containing literary or artistic works or used for the recording or playback of such, the price paid for books, sheet music and other media products, the costs of training sessions pertaining to such activities, furthermore, in respect of performing artists, the costs of beauty and cosmetic products or services bought or received in connection with appearing on stage.

27) the verified costs paid by the private entrepreneur for training, if:

a) it applies to the training of another private individual, including the related public dues as paid;

b) it is meant to improve his own expertise to the extent necessary for his entrepreneurial activities, not including the costs of training provided within the regular school system;

28) road tolls and charges as consistent with the distance traveled on toll roads for business purposes for the period of eligibility of road usage.

29) any provision made by a private entrepreneur to a volunteer under the Act on Voluntary Activities of Public Concern that is not considered a valuable consideration, if the private entrepreneur has employed the volunteer for the benefit of his gainful activity or business operation.

II. Rules of depreciation write-off

The depreciation allowance of tangible and intangible assets may be written off as expense in accordance with the provisions of this Chapter, with due consideration of the provisions of the chapter on vehicle expenses.

1) Definitions:

a) Definition of tangible assets

'Tangible assets' shall mean all material assets (parcel of land, building plot, land improvement, forest, plantation, building, other structures, technological equipment, machinery, vehicle, business and operational accessories, other equipment) and brood stock that are regularly used (directly or, in a manner prescribed in this Act, indirectly) for business activities for more than one year.

aa) 'Real property, as a tangible asset' shall mean a parcel of land, building plot, land improvement, building, building sections, property shares, other structures, and non-operational real properties.

'Arable land' shall mean cropland, areas under cultivation, forests, reed bank, grass-land, and fisheries. The value of land parcel(s) obtained by an entrepreneur by purchase, or appraised as prescribed by law, shall be registered as such.

'Building plot' shall mean a real estate category to include the acquisition value of land obtained by a private individual by purchase, expropriation or by payment of a one-time plot usage fee. The structures and other tangible assets located on a plot shall not comprise a part of the plot and shall not be included in the value of such. Land improvement shall also be included in this real estate category.

'Land improvement' shall mean the result of an activity classified as investment aimed, in order to improve the utilization value of the land by way of altering the properties and the surface of the land, and improving the overall preconditions for production. Land improvement covers expenditures for terrain arrangement, landfill, soil improvement and soil protection projects shown as investments. The value of land improvements shall not include the value of land or plot upon which it was implemented.

'Building structure' (the collective term for buildings and other structures) shall mean all engineering works, buildings or other structures installed or constructed (becoming fixed property) permanently or temporarily generally as being attached to the ground (by way of foundation) or by way of altering the natural properties or natural geological structure of the ground, and which may only be removed from the

ground if dismantled or taken apart which, however, makes such object unsuitable to serve its original function. The term building structure shall include water, electricity, gas and sewage lines, central heating, ventilation, air conditioning equipment and elevator which, as being built into its structure, provides the necessary supplies for the serviceability of the building. Such lines, equipment and accessories shall be included as part of a building structure if, in addition to providing the essential supplies for serviceability, they also serve technological purposes.

'Building' shall mean a structurally detached edifice as being partially or wholly separate from the exterior area by constructed structures, hence providing a confined area for long-term, temporary or periodical inhabitation, commercial production or for the storage of materials and products.

'Building sections, property shares' shall mean a unique form of real estate when one independent property has more than one owner among whom the ownership of the real estate is divided and registered in the real estate register (title deed) in the ratio specified in the relevant contract. In this case, the acquisition or construction expenses shall not apply to the entire property, but to the commensurate percentage of ownership.

'Other structures' shall mean all structures other than buildings (e. g. road, railroad, fence). Also included in this category are plantations and fisheries, not including, however, the area occupied by such.

Non-operational real estate is such serving the gainful activities indirectly. Included particularly are the buildings and other structures for social, cultural, sport, children's institutional and vacation resort purposes.

ab) The category of technical equipment, machinery and vehicle shall include power machinery, power generation equipment, instruments, tools, transportation equipment, communications equipment, computers and vehicles directly serving the entrepreneurial activities as being put into regular service.

The category of power machinery and power generation equipment shall include, in particular, water and wind driven machines, air motors, stationary and semi-stationary steam machines, rapid and slow combustion engines, power generator equipment lines, industrial boilers, electric rotors, transformers, high and low voltage electric instruments, and power rectifiers.

Instruments and tools are, in particular, storage tanks, cooling equipment, pumps, ventilators, compressors, pneumatic tools, power tools, production equipment, instruments and accessories.

Transportation and communications equipment are, on general principle, lifting and loading machines, cranes, fork lifts, conveyor belts, conveyor lines used for moving materials and goods, containers, communications devices and instruments (e. g. regular and wireless communications devices and equipment) used for business purposes.

The category of computers and accessories covers the automated process control systems, computer hardware, central and peripheral units, etc.

Road, water railroad and aviation transport vehicles generally equipped with a license plate shall be construed as vehicles.

ac) The category of other equipment, accessories and vehicles shall include accessories, machines, office equipment, business and operational accessories not listed among technological equipment, machinery and vehicles, as being put into regular service.

ad) 'Brood stock' shall mean animals that generate separable products (offspring or other separable products) during breeding and husbandry operations, if the sale or other use of these products (as draft, security, or riding animals) covers the cost of their upkeep regardless of how long they are used for entrepreneurial activities.

ae) 'Plantation' shall mean an area for cultivating crops, where the plants are rooted in the ground for at least one year and if the entire expanse of such area covers at least 500 square meters in the case of grapevines; 500 square meters in the case of raspberry, gooseberry, black or red currant, blackthorn, blackberry, and elderberry bushes; or 1500 square meters in the case of apple, pear, quince, peach, apricot, sour cherry, cherry, plum, walnut, chestnut, almond, and hazelnut trees.

af) 'contemporary work of art' shall mean any work of an artist who is alive on the first day of the calendar year.

b) Definition of intangible assets

Intangible assets are transferable rights of value or otherwise marketable rights of value which are used directly for entrepreneurial activities over a long term (one year or more). Such assets are, in particular, rights in immovables, if in conformity with the above-mentioned conditions, operating rights as defined in the Medical Practices Act, intellectual products and the capitalized value of research and development. Capitalized value of research and development means the direct costs of research and development operations, or the sum of costs that can be taken into account in proportion to the respective activities on

the basis of the units of measurement applicable to the given costs (day, square meter, cubic meter, work time, etc.) and claimed as and shown under investment expenses, if the result of the research and development will likely serve the entrepreneurial activity over the long term.

Intellectual products are the intellectual works permanently serving the business activities, such as:

- inventions,
- patents and industrial design under protection as industrial property,
- registered trademarks,
- copyrighted assets,
- software,
- other intellectual products (innovations, technological, business and intellectual services, etc.),
- know-how and manufacturing procedures from assets not under protection yet monopolized by virtue of secrecy.

2) Rules of depreciation write-off of own tangible and intangible assets used exclusively for business purposes

a) Depreciation write-off may be effected in accordance with the write-off rates described in Point 3. The percentage indicated by the tangible or intangible asset reflects the write-off ratio to be applied for one calendar year. If for a single tangible asset more than one regulation apply, either one may be used, however, the method selected and applied shall be used throughout subsequent years. The depreciation write-off procedure commenced before 1997 shall be completed by the initial method throughout, until written off in full.

b) Depreciation may be claimed from the day on which assets are put into operation until the day on which they are discarded or the day on which they are sold (contributed etc.). If the assets are put into operation or sold during the tax year, the amount of depreciation shall be prorated for each day (unless depreciation is calculated on the basis of Paragraph *g*) or *p*). The date on which a tangible or intangible asset is put into operation is the day upon which the private entrepreneur commences regular use of the asset. This date shall be indicated in the records on intangible assets, or in the records on investment costs. The date on which plantation is put into operation shall be the day when the plantation actually produces crops.

c) The basis of depreciation write-off is the investment cost, based on the following records of expenditures incurred prior to commissioning: the purchase price of tangible and intangible assets, or if own production, the invoiced amount of materials and subcontract work involved. The deductible VAT amount indicated in the invoice (document) shall not be included in the base amount for depreciation write-off. Value added tax which cannot be deducted shall also be included in the base amount for depreciation write-off.

Additional expenditures related to the acquisition of any single tangible asset (shipping, foundation, installation, commissioning, the costs of mediation, consignment fees, customs duties, taxes - not including value added tax - duties, loan costs, interest paid up to the date of commissioning, insurance fees, etc.) shall be included in the acquisition price.

In respect of the acquisition price of buildings or building structures, the provisions of this Act pertaining to expenditures for the acquisition or real properties shall be applied. The invoiced expenses of value-increasing improvements shall be added to the above specified amount, if not claimed by the taxpayer previously.

d) Expenses in connection with the expansion, conversion, changing the function and increasing the economic life of tangible assets, furthermore renewal of a used tangible asset serving to restore the asset's original state (capacity, precision) (all the above hereinafter collectively referred to as "renovation expenses") may be claimed in the year in which they are incurred or may be added to the base of depreciation write-off. In connection with the purchase price of brood stock and any incidental costs and labor costs charged before breeding, private individuals shall have the option to either claim such charges as expenses for the year or add them to the depreciation base.

e) In order to establish the amount of depreciation write-off, records shall be maintained on tangible and intangible assets, as described in Schedule No. 5.

f) No depreciation may be claimed on the purchase price and the production cost of land, building plot, land improvement, forest and works of fine arts (other than contemporary works of arts), with the exception of tracts of land used for mining and storing waste, plots, and soil amelioration. If a building plot also belongs to a tangible asset, the purchase price of the plot shall be separated.

g) In respect of tangible assets, whose prime cost are less than 200,000 forints as well as tangible assets subject to the 33 per cent rate, the taxpayer shall have the option to choose the duration of depreciation in two tax years and the rate of depreciation is fifty per cent for both years.

h) For machines and equipment put into operation after 31 December 1995, not previously employed for use, classified in the Harmonized System (hereinafter referred to as "HS") under HS 8405-8408, 8410-8430, 8432- 8447, 8449-8465, 8467, 8468, 8474-8485, 8508, 8515, 8701, 8709 and 8716 headings, electric apparatus under HS 8501, 8502, 8504-8507, 8511-8513, 8530, 8531, 8535-8537, 8539, 8543- 8548, 9006 and 9405 headings, boilers under HS 8403 heading and steam generation equipment under HS 8402 heading, an annual depreciation write-off of 30 per cent may be applied, unless the taxpayer, on the basis of this Chapter, selects a higher rate of depreciation.

i) Taxpayers with business premises in an enterprise zone may claim a lump sum depreciation allowance in the case of tangible assets - excluding road vehicles (HS 8701-8705, 8710, 8711 headings) that are commissioned following its classification as an enterprise zone, or on or before 31 December 2002, buildings and structures - or an annual 10 per cent depreciation for buildings and building structures put into operation and not employed for use earlier, in the enterprise zone following its classification as an enterprise zone, or on or before 31 December 2002. For the purposes of this provision, the administrative unit classified as such by law shall be regarded as an enterprise zone.

j) In respect of tangible and intangible assets purchased after 31 December 1996 on installment, if ownership according to the contract is transferred to the buyer at the time of payment of the last installment or subsequently within a specific period of time, a private entrepreneur buyer may claim the depreciation described in this Schedule for the full purchase price of such tangible or intangible asset, irrespective of the method of payment of the purchase price. The private entrepreneur selling his tangible or intangible assets as per the prior shall account the installments received during the year as revenues for the tax year. Interest charged on such installments shall not comprise a part of the acquisition price - it may be claimed during the year of payment as an expense.

k) Private entrepreneurs providing lodging and hospitality services may claim a 3 per cent depreciation write-off on the building of permanent structure operated exclusively for such purposes.

l) Private individuals may claim 50 per cent depreciation in connection with general purpose computers and computer accessories falling under heading HS 8471.

m) Private individuals may claim 50 per cent depreciation on the capitalized value of experimental development in connection with tangible assets and intellectual products that have never been used previously and that are subject to a 33 or 14.5 per cent rate.

n) Private entrepreneurs may claim 50 per cent depreciation from the costs of equipment used exclusively for motion picture and video production.

o) Any funds released from the records of provisions for developments to finance the purchase or manufacture of tangible assets shall be treated as depreciation, and shown in the analytical records and registers accordingly, claimed at the time the asset is commissioned or validated (placed into operation) or - if not placed into operation - at the time when retired, sold or removed from the records for any other reason.

p) Private entrepreneurs employing less than 250 persons may claim the entirety of investment expenses of machinery, equipment, accessories - not including passenger cars - and tangible assets shown under vehicles, that have never been used previously, as established at the time of placing them into service for that tax year, if these tangible assets are used in any one of the 48 micro-regions deemed most underprivileged pursuant to the Government Decree on the Regions of Preferential Treatment for Reasons of Regional Development. One per cent of the depreciation write-off, and three per cent for vehicles, for the purposes of the provisions governing state subsidies, if the investment serves the purpose of primary agricultural production, it may be claimed as an aid provided according to Commission Regulation (EC) No. 1857/2006 of 15 December 2006 on the application of Articles 87 and 88 of the Treaty to State aid to small and medium-sized enterprises active in the production of agricultural products, in all other cases it shall be treated, as selected by the private entrepreneur:

pa) as *de minimis* aid received for the tax year, or

pb) as aid provided under the Commission Regulation on State aid to small and medium-sized enterprises.

q) In respect of tangible assets commissioned prior to 31 December 1998, private entrepreneurs may continue to apply the depreciation rates set forth in the provisions of Schedule No. 11 in effect on 31 December 1998.

3) List of Write-Off Rates and the Regulations on Application

a) Buildings

Type of building	Annual write-off rate %
Structures of long economic life	2.0
Structures of intermediate economic life	3.0
Structures of short economic life	6.0

Classification of buildings according to technical criteria within the categories listed:

Category	Perpendicular (vertical) bearing structures	Filling/dividing (non-bearing) walls	Horizontal bearing structures (middle structures and roofs, and combined bearing/partitioning roof structures)
Structures of long economic life	Concrete and reinforced concrete, burnt brick, stone, slag and steel structures	Brick, block, panel, poured walls, sheet metal, glass concrete and profile glass	Prefabricated and monolithic reinforced concrete, filling elements between steel supports, and vaulted roofs
Structures of intermediate economic life	Light steel and other metal structures, gas silicate structures, bauxite concrete, tufa- and slag block structures, sawed lumber framing, cob or adobe walls on insulated foundations	Asbestos, plastic and other partitioning-walls	Beam (covered and dense beam), 'Máttra' roof, light steel roofs and combined steel structures with light filling elements
Structures of short economic life	Industrial timber and plank framing, slab wall structures, temporary brick masonry walls	Wooden partitions, plasterboard panels pressed into frames	Industrial timber, adobe and other simple sheet-flooring

From among the three criteria, the character of the building shall be defined on the basis of the criteria representing the shorter economic life.

The depreciation of machinery and equipment falling under the sphere of building engineering may also be claimed independent of the building.

The depreciation of technical machinery and equipment installed into the building, and the specifications of pipes and cables serving them shall be established independent of the buildings, on the basis of the write-off rates applicable to machines, pipes and cables.

b) Structures

Groups of structures	Annual write-off rate %
Industrial structures	2.0
Agricultural structures including: independent buttress system	3.0 15.0
Meliorations	10.0
Access and service roads, in the case of individual entrepreneurs pursuing agricultural activities	5.0
Rail structures- public railways and ancillary structures, including industrial railways	4.0
Other rail structures (suburban railways, trams, underground rail tracks, etc.)	7.0
Hydrostructures (in water)	2.0
Bridges	4.0
Power lines, including telecommunication network lines	8.0

Crude oil and natural gas pipelines, gas mains	6.0
Steam, hot water and thermal water pipes, natural gas transmission pipelines, thermal wells	10.0
Public road tram and trolley-bus (power) lines	25.0
All other lines and conduits	3.0
Tunnels and underground structures (with the exception of mining structures)	1.0
Investment projects carried out on outside (leased) real property	6.0
Waste disposal facilities	20.0
Structures used exclusively for motion picture and video production	15.0
All other structures (except: waste treatment and recovery installations)	2.0
Waste treatment and recovery installations	15.0

'Waste disposal facility' means a building or structure installed for the storage and treatment of waste in compliance with the Act on Waste Management. Depreciation for the parcel of land used for the waste disposal facility shall be claimed at the same rate as for the waste disposal facility.

'Waste recovery installation' means a building or structure, not including land, installed for recovery operations in compliance with the Act on Waste Management.

'Melioration' means a process to regulate water bodies in unincorporated areas to promote the use of cropland, gardens, orchards, vineyards, grassland, forests and arable land for agricultural purposes; soil-amelioration with an effective range of at least six years and installations for earthwork.

c) Plantations

Groups of plantations	Annual write-off rate %
Apple, pear, quince, medlar, cherry, sour cherry, plum, grape, viniculture, almonds, hazelnuts	6.0
Peach, apricot, gooseberry, currant, hop, fruit orchard, willow plantation	10.0
Asparagus, raspberry, blackberry, horse radish	15.0
Walnut, chestnut	4.0
Other plantations	5.0

d) Machinery, equipment, accessories, vehicles

da) tangible assets subject to 33 per cent rate:

1) Program controlled and numeric controlled machinery and equipment under HS 8456-8465, 8479 headings;

2) Control engineering and general purpose computer hardware and equipment under HS 8471, 8530, 8537 headings;

3) Industrial robots under Chapters HS 84 and 85;

4) Transmission technology, special industrial testing instruments and special gauging and testing equipment operating on complex principles under HS 9012, 9014-9017, 9024-9032 headings;

5) HS 8469, 8470, 8472, 9009 headings and HS 8443 5100 00 subheadings;

6) HS 8419 11 00 00, 8541 40 90 00 subheadings;

7) Fluid-bedded coal dust fueled equipment, as well as heat generation equipment fueled by combustion of wet agricultural and forestry byproducts under HS 8402, 8403, 8416, 8417 headings;

8) Waste disposal, processing, neutralization and utilization equipment under HS 8417 80 10 00 subheadings and 8514 headings;

9) HS 8421 21 subheading;

10) Equipment for separation and filtering of pollutants under HS 8419, 8421 headings;

11) HS 8421 31 and 8421 39 subheadings;

12) Medical therapeutic and laboratory instruments under HS 8419 20 00 00 subheading, and HS 9018-9022 headings.

db) tangible assets subject to 20 per cent rate:

Vehicles under HS 8701 heading, HS 8702-8705, and HS 8710, 8711 headings

dc) tangible assets subject to 14.5 per cent rate:

All other tangible assets not listed under Points da)-db).

e) Contemporary works of art may be depreciated over five years or more.

f) Intangible assets

For the purpose of determining the depreciation write-off rate the investment costs of intangible assets shall be divided among the years during which the private entrepreneur is expected to use them for the entrepreneurial activities. The capitalized value of any completed research and development project may be written off in five years or less. This period and the amount of annual depreciation (the method of determining such amount) shall be determined and recorded at the time the asset is put into operation and shall be recorded in the appropriate individual records.

f) For the purpose of determining the depreciation write-off rate the private entrepreneur shall divide the investment costs of the following tangible assets among the years during which he is expected to use them for the entrepreneurial activities:

fa) tangible assets obtained under concession;

fb) tangible assets of industrial parks, which are recognized as public utilities (road, water and sewage lines, electricity lines, telecommunications lines);

fc) brood stock;

fd) tangible assets used solely for basic research, applied research and experimental development;

fe) coaches used for the carriage of passengers.

This period and the amount of annual depreciation (the method of determining such amount) shall be determined and recorded at the time the asset is put into operation and shall be recorded in the appropriate individual records.

4) Rules of depreciation write-off of own tangible and intangible assets (not including passenger cars) which are not exclusively used for business purposes.

a) A flat depreciation write-off rate may be applied in respect of own machinery, equipment and accessories which are not exclusively used for business purposes, if maintaining records on such tangible asset not exclusively used for business purposes to include the description and acquisition price (cost of manufacture), as the book value, of the tangible assets, along with the date of acquisition (manufacture) and commissioning. The amount of the flat rate, also if using more than one such asset, may not exceed 1 per cent of the annual revenues, or 50 per cent of the book value of the tangible asset(s) included in the aforementioned records. This flat rate may be applied only once, based on the value of any given tangible asset not exclusively used for business purposes, in the year of commissioning.

b) In respect of the rental of buildings or building structures, if the term of rent is for less than a full year and/or if the rental agreement includes only a fraction of the real estate (such as if used for lodging purposes occasionally), from the depreciation allowance described in Point 3

- the time-proportionate part on the rental period (1/365 daily),

- the proportionate part per square meter of the floor space of the rental property,

may be applied, or if the above two cases occur jointly both ratios may be applied at the same time.

c) No depreciation allowance may be claimed on intangible assets if such assets are not exclusively used for business purposes.

5) No depreciation allowance may be claimed for tangible and intangible assets, the acquisition costs of which were claimed by the private individual previously in one lump sum or as depreciation allowance in any way or form, as well as for the assets acquired by way of leasing.

6) The depreciation allowance shall be considered as claimed for the calendar years during which the private individual used the tangible or intangible assets (except passenger cars) in connection with his gainful activities and fulfilled his personal income tax obligation by presumptive income ratio as described by law (the ratio of revenues as defined by law), or received revenues as consideration for depreciation allowance, or received tax-exempt receipts.

7) Without prejudice to the provisions contained in Points 1-5, private entrepreneurs shall write off as depreciation the purchase (production) cost of any tangible or intangible asset purchased (manufactured) with funds received in aid by virtue of legal regulation or international agreement to the extent financed from such aid at the time the asset is commissioned or validated (placed into operation) or - if not placed into operation - at the time when retired, sold or removed from the records for any other reason. No additional depreciation may be claimed with respect to tangible and intangible assets which are not exclusively used for business purposes.

III. Vehicle costs

1) The fuel consumption of personally owned vehicles - hereinafter also including the vehicle owned by the spouse - and the costs of maintenance, repair and overhaul as substantiated by invoices (receipts) may be claimed, as well as the depreciation to be claimed as described in Chapter II, for vehicles used exclusively for business purposes (in the application of this provision, also including the motor vehicles used in connection with the regular operations of a private entrepreneur engaged in car rental or passenger transportation services, if it is not used for other purposes to any extent whatsoever, and such use is clearly supported by his business records). As fuel consumption, either:

a) the fuel consumption allowance and the fuel prices published by state tax authority,
b) or the fuel purchases substantiated by invoice (invoices) may be claimed, however, the quantity of fuel accounted on the basis of invoices may not exceed the quantity calculated by the fuel consumption allowance and the actual rate of usage,

whereby the private individual may not deviate within any quarter of the tax year from the expense accounting method related to fuel consumption - including the selected fuel consumption allowance - that was selected on the first day of the quarter. The provision contained in Paragraph a) may not be applied if the private individual has deducted the value added tax of fuel in accordance with the VAT Act.

2)
3)
4)

5) Depreciation may be claimed by the flat rate described in Chapter II against the acquisition price of own vehicles, excluding passenger cars, not exclusively used for business purposes. In respect of passenger cars not mentioned in Point 1, flat-rate accounting may be applied as per the following: upon maintaining the records described in Chapter II, 1 per cent of the annual revenues, but not more than 10 per cent of the passenger car's acquisition price may be claimed, or such amount may be added to the expense otherwise claimed as the flat rate described in the aforementioned provision. This flat rate may be applied only once, based on the value of one passenger car, in the year of commissioning. Other expenses may be claimed in proportion of business use as per the relevant provisions of Point 1.

6) In respect of own passenger cars, in addition to fuel expenses instead of the provisions of Point 5 and on the grounds of all other expenses (e. g. maintenance, repair, overhaul), a flat rate of 9 forints/kilometer (general purpose passenger car standard expense) may also be selected.

7) In respect of vehicles which are not own property and are used exclusively for business purposes (not including passenger cars), the following may be claimed in proportion with business use:

a) the verified lease or rental charges (not including the rental or lease charges on passenger cars),
b) the fuel consumption as described in Point 1,
c) other invoiced expenses, if such are the responsibility of the lessee on the basis of the rental contract.

8) The amount applicable as expense on the grounds of rental or lease charges of a passenger car may not exceed 1 per cent of the entrepreneurial revenues also if applied to more than one passenger car, otherwise a private entrepreneur may not claim any expenses on such grounds. The passenger cars described in Point 1 shall be excluded from the latter provisions, in respect of which the rental fee or, in accordance with the relevant regulation, the lease price may be claimed. In respect of a vehicle which is not own property and used for business purposes the following may be claimed:

a) the fuel consumption as described in Point 1,
b) other invoiced costs

if such are the responsibility of the private entrepreneur on the basis of contract.

9) Regardless of which expense accounting method is used, a separate mileage log, as described in Point II.7 of Schedule No. 5, shall be maintained for each vehicle, to include the odometer reading on the first and last day of use for business purposes. Expenses may only be claimed on the basis of use for business purposes as verified by the mileage log described in this Part, exclusive of the mileage for which the payer has already paid the private individual compensation, which is not regarded as revenue, for official or business travel based on an assignment order.

10) The choice made by a private entrepreneur between the expense accounting methods described in Point 1 or Point 6 applies to all vehicles used by such private individual and for the entire tax year. If the costs of other vehicles are also claimed in addition to those of the passenger car(s), such shall not exclude application of the accounting method described in Point 6 uniformly to all his passenger cars. If claiming the expenses incurred by using passenger cars in accordance with Points 7-8, the accounting described in Point 6 may not be applied for own passenger cars either.

11) By way of derogation from the provisions of Point 9, private entrepreneurs may, instead of keeping a mileage log, claim a flat-rate of 500 kilometers per month for the use of passenger car, with due consideration of Point 6, regardless of the number of passenger cars being operated. This accounting method, too, may only be used for the entire tax year, or for the full duration of the private entrepreneurial activities within a tax year.

12) Private entrepreneurs shall prove the ownership of their own cars by the receipt documenting payment of the compulsory motor vehicle liability insurance in compliance with the regulations of this Act on retaining accounting documents.

13)

IV. Expenses, which may not be claimed as costs when determining income:

1)

2) payment (fine, default interest, etc.) imposed due to tax evasion or any violation of other legal regulations established in the course of a financial inspection (audit), except for the self-revision surcharge and the tax arrears in respect of taxes that could otherwise have been accounted as costs in the event of legitimate performance;

3) amounts repaid on a credit (loan) borrowed for any purpose whatsoever;

4) the payment liabilities in connection with which the private individual has applied tax reductions;

5) membership fees, unless otherwise prescribed by law;

6) charitable donations;

7) expenses not in compliance with the regulations (extent, conditions, etc.) prescribed in Chapters I-III and with the relevant general provisions, and with those relevant to the expenses on entrepreneurial activities as prescribed therein;

8) the personal income tax, entrepreneurial income tax and the personal income tax paid on the entrepreneurial dividend base of private entrepreneurs;

9) employee's medical and pension contribution paid not on the basis of an agreement in accordance with the provisions of the Act on the Eligibility for Social Security Benefits and Private Pensions and the Funding for These Services, and the membership fees paid not on the basis of an agreement and not as a supplement in accordance with the provisions of the Act on Private Pension and Private Pension Funds;

10) the sums paid on the basis of an agreement and in accordance with the provisions of the Act on the Eligibility for Social Security Benefits and Private Pensions and the Funding for These Services to himself for the purpose of providing income to be applied as a pension base and service time for gaining eligibility for pension benefits, and private pension fund membership fees and its supplement on the basis of the Act on Private Pension and Private Pension Funds;

11) the health insurance contribution paid on the basis of an agreement and in accordance with the provisions of the Act on the Eligibility for Social Security Benefits and Private Pensions and the Funding for These Services;

12) expenses to be claimed in the depreciation write-off base, incurred prior to the commissioning of tangible or intangible assets, as well as expenditures representing renovation costs, if the private entrepreneur increases the depreciation write-off base by such;

13) non-repayable assistance received from the employer, including the sums granted to the private individual as aid;

14) taxes the private individual has paid abroad on his income, which are compatible to personal income tax.

Schedule No. 12 to Act CXVII of 1995

Schedule No. 13 to Act CXVII of 1995

Entrepreneurial tax allowances

Private entrepreneurs using the entrepreneurial income taxation system may deduct the entrepreneurial tax allowances described in this Chapter from the entrepreneurial income tax.

Tax relief for small business

9) Private entrepreneurs with less than 250 employees - with the exception of the private entrepreneurs engaged in activities classified under the agricultural, hunting and game, forestry, or fisheries sector - shall be eligible for a tax allowance regarding the purchase or manufacture - financed by a financial institution under a loan contract (including financial leasing) signed after 31 December 2000 - of a tangible asset, on the basis of the interest on the loan.

10) The rate of tax allowance for the loan defined under Point 9 shall be 40 per cent of the interest paid during the tax year.

11)

12) The amount of tax allowance claimed and received pursuant to Point 9 shall not exceed 6 million forints per year. For the purposes of the provisions governing state subsidies, the tax allowance claimed by the private individual for the tax year shall be treated as de minimis aid, or - as selected by the private entrepreneur - as an aid provided under the Commission Regulation on State aid to small and medium-sized enterprises, if, however, the investment serves the purpose of primary agricultural production it may be claimed as an aid provided according to Commission Regulation (EC) No. 1857/2006 of 15 December 2006 on the application of Articles 87 and 88 of the Treaty to State aid to small and medium-sized enterprises active in the production of agricultural products.

13) A private entrepreneur shall be eligible for the tax allowance in a tax year on the last day of which the particular tangible asset appears in its records; the last year of eligibility shall be the year in which the loan is to be repaid in full as contracted.

14) The private entrepreneur shall be liable for repaying the tax allowance, with penalty added, if the tangible asset to which it pertains

a) is not put into operation within four years following the year of the loan contract, unless this occurs for reasons of damage that has occurred as a consequence of unavoidable external reasons,

b) is sold during the year it is put into operation or during the following three years.

This provision shall also apply if the private individual's private entrepreneurial status terminates for any reason during the period mentioned in the preceding (excluding if in consequence of losing legal capacity or of his death).