

Financial transaction taxes – Focus on the Hungary market

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Introduction

Our speakers



Éric Vacher
Head of tax affairs
AMAFI



Maguette Diouf
Advisor on tax affairs
AMAFI



Gergely Juhász
Partner
PwC Hungary



Norbert Czilják
Senior manager
PwC Hungary

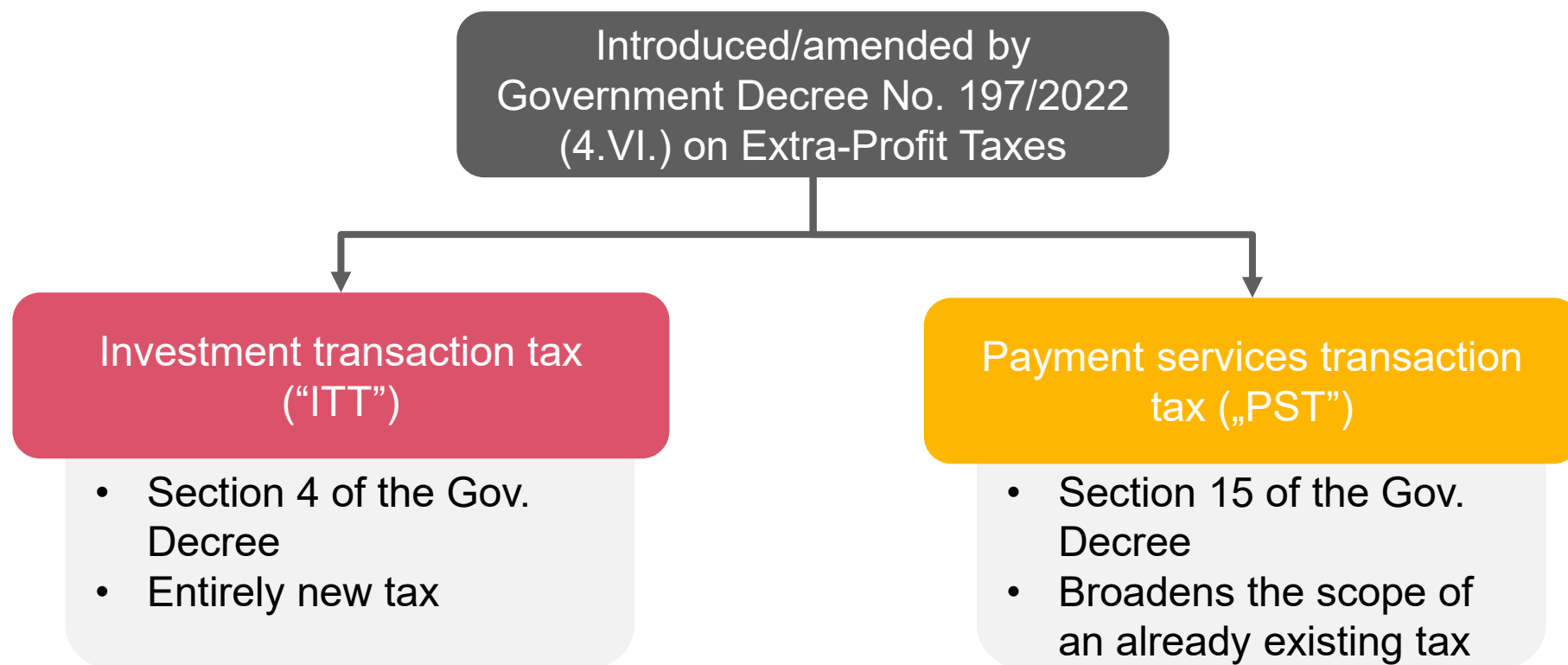


François-Marc Venier
Partner
PwC Société d'Avocats



Tarek Afantrouss
Director
PwC Société d'Avocats

Financial transaction tax regimes in Hungary





Investment transaction tax




















Scope of ITT

Personal scope	Taxable instruments
<ul style="list-style-type: none">• Financial institutions*• Investment service providers*• Foreign persons providing investment services in Hungary on a cross-border basis <p><i>*defined by the applicable sectoral acts</i></p>	<ol style="list-style-type: none">i. transferable securitiesii. money-market instrumentsiii. securities issued by collective investment vehicles



Purchase of a financial instrument with ISIN issued by KELER Central Depository for **client account or own account**

Exemptions

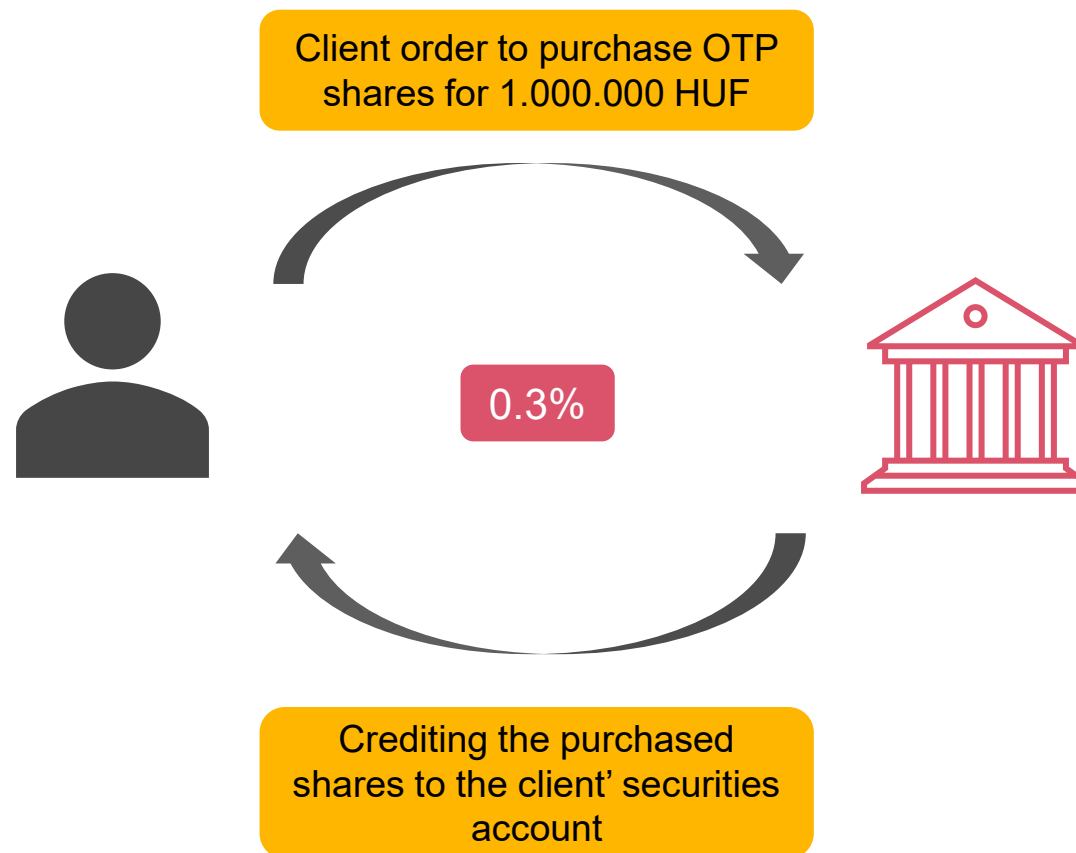
Country	Some exemptions				
	“Market-Making”	Daily Netting	Securities Financing	New Issues	Intra-Group
Hungary					
France	 (Tax definition - Market-Making exemption)				
Italy	 (riskless principle / Market-making exemption – Regulatory exemption)				
UK	 (Intermediary Relief)				

Under the Hungarian ITT regime, a purchase **is only exempt** from ITT if

- i) the investment service is provided by the Hungarian State Treasury or the institution operating the Postal Clearing Center, or
- ii) the purchase of the taxable financial instruments are for the benefit of a private individual and the value of the transaction does not exceed HUF 20,000 (cca. EUR 50).

This also means that the Hungarian ITT regime – unlike other European jurisdictions’ regimes – **does not include market maker or similar exemptions**

Tax rate of ITT



- The purchase of the security triggers ITT
- The investment service provider is liable for the ITT
- Arises on the day of the purchase
- ITT is 0.3 percent of the value of the HU ISIN security purchased
- Maximum 10.000 HUF/ purchase transaction (~25 EUR)

Cross-border service providers

Tax legislation refers to a regulatory act (i.e., Investment Services Act)



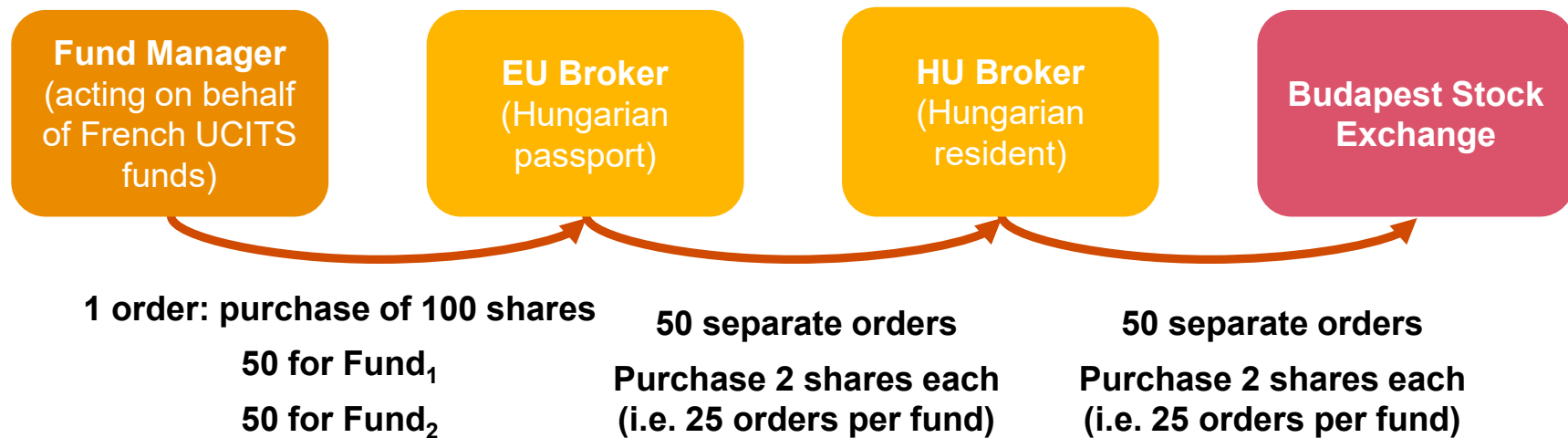
The Investment Services Act does not define cross-border services (it only defines the conditions)



Thus the tax legislation refers to a sectoral norm that does not have a well-defined content

Legal analysis is required if the investment services are provided to clients with a permanent establishment/residence (domicile) in Hungary from another EU/EEA member state

Key uncertainties through a typical transaction



Execution management: systematic algorithms to monitor the order book of the Budapest Stock Exchange

Key uncertainties



Compliance considerations

Tax liability on a monthly basis, by the 20th day of the month following the settlement date

Applies to purchase transactions executed from 1 August 2022 onwards

Registration until 1st September 2022 for already existing service providers

For new service providers, registration until first day of the month following the commencement of new activities

Compliance considerations cont'd

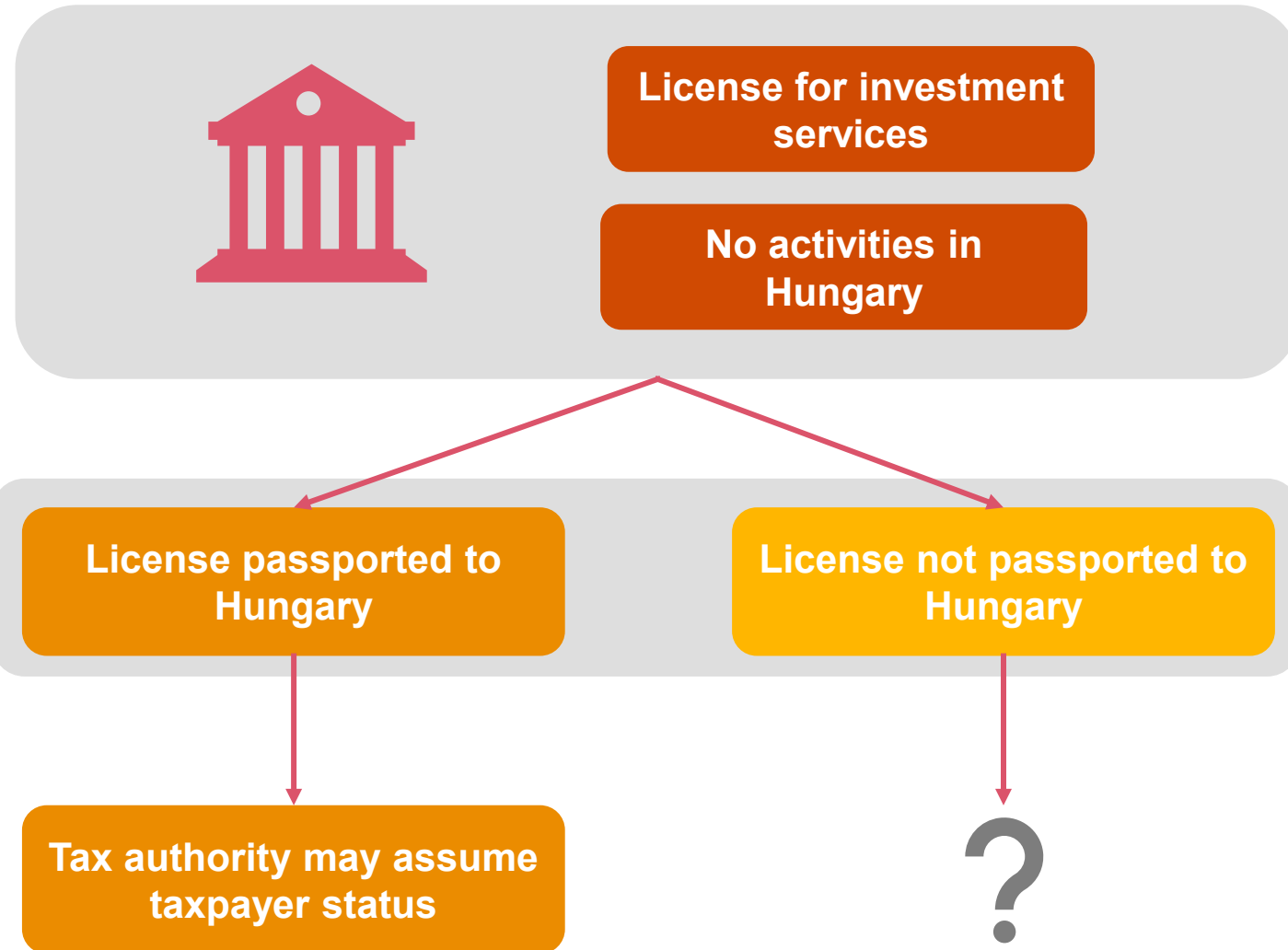
Reportable data in the
tax return



Transaction tax liability after the value of security purchase transactions with ISIN codes issued by KELER Zrt. for the benefit of own account or client account as credited on the client account (securities account), **if the cap of HUF 10,000 per transaction applies // if the liability is below the cap of HUF 10,000 (two rows)**

- Number of transactions
- Basis of the transaction tax
- Tax liability

Compliance considerations cont'd



Non-compliance

- **The penalty for a late filing of an ITT/ PST return in Hungary is a maximum HUF 500,000 (c. EUR 1.2k)**
- **Late payment interest arises if the tax is not paid by the deadline. The late payment interest is equal to the prime rate of the Hungarian Central Bank (currently 13%) + 5% points**
- **If the Hungarian Tax Authority establishes a tax shortfall during a tax audit, then a tax penalty up to 50% of the tax shortfall may be levied (in addition to the late payment interest described above)**
- **Reminder : statute of limitations 5 years**



Regulatory risks?

Non-binding rulings



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Payment
services tax

Overview of PST

Scope of PST

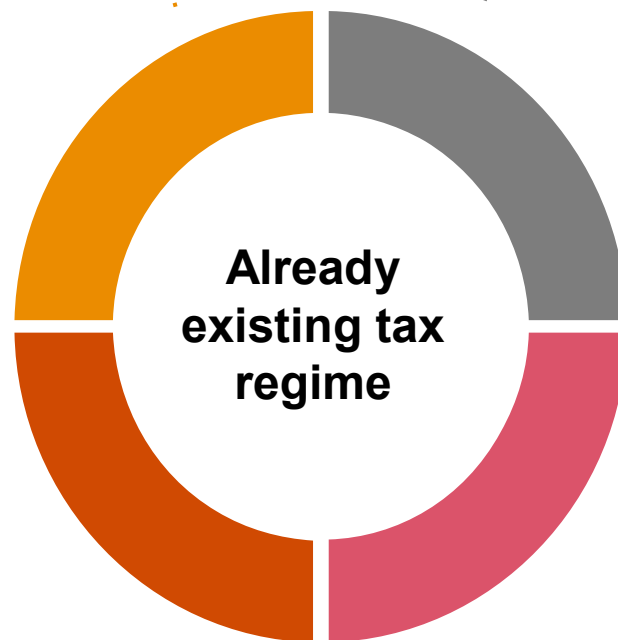
For foreign persons
provision of

- payment services
- credit and loan granting
- currency exchange activity and currency exchange intermediation services

as cross-border services

Cross-border service provider

- Regulatory analysis required
- Framework contract in accordance with PSD2



Tax base and rate

Tax base (examples):

- Sum deducted from the payers account
- Sum of the money transfer
- Sum of the sold currency during currency exchange

Tax rate: 0.3%

Compliance

- Registration obligation
- Monthly tax returns

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Our proposed
approach

How can PwC help?

Company registration at the Hungarian Tax Authority

- Preparation of a registration form based on data provided by the company to be registered, sending for review and signing
- Filing of original signed registration form at the Hungarian Tax Authority based on one-off PoA
- Authorization for PwC employees to submit tax returns electronically

Monthly tax returns

- Preparation of a tax calculation based on data provided by the taxpayer covering the transactions selected by the taxpayer
- Preparation of a tax return, sending for review together with transfer details of the payable tax (performing the transfer is arranged by the taxpayer)
- E-filing of tax return following approval

Advisory services

- Preparation of a questionnaire aiming to identify taxable activities
- Review of the completed questionnaire and analyze if the activities trigger FTT and PST in Hungary
- Preparing a to-the-point tax memo regarding our findings that includes the topics which require further analysis (like regulatory review) or obtaining guidance from the authorities

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Question and
answers

Thank you

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