HUNGARY – TAX CONSIDERATIONS ON SHORT-TERM LETTINGS

The following information is a guide to help you get started in learning about some of the tax requirements that might apply to you when providing short-term accommodation in Hungary.

Tax can be tricky and it is important to ensure that you keep up to date with your tax obligations and remain tax compliant. The timely preparation, filing and payment of taxes are your responsibility.

If you are supplying short-term accommodation in Hungary, you should make sure that you understand each of the following types of taxes, and pay the ones that apply to you;

- Income taxes
- Value added tax (VAT)

Please understand that this information is not comprehensive, and is not intended to be legal advice. If you are unsure about your local tax obligations, we encourage you to check this with official local sources, or to seek advice from qualified professionals.

Please note that we do not update this information in real time, so you should confirm that the laws or procedures have not changed recently.

INCOME TAX

When an individual earns income in Hungary, it is likely that they will be required to pay a percentage of the tax on this income to the Hungarian tax authority. Below is a brief outline of the tax that may arise on income earned from short-term lettings in Hungary and some information on how this tax can be paid over to the Hungarian tax authorities.

Hungary’s tax year runs from 1 January to 31 December.

Coming within the charge to income tax in Hungary.

If you earn rental income on a Hungarian property this income is taxable in Hungary.

Reporting tax in Hungary.

The form 18SZJA should be used for the year 2018 tax year. This can be found on the Hungarian tax authority website.

Reporting tax - filing deadline.

The deadline for filing your tax return is 20 of May following the end of the tax year e.g. the deadline for filing your tax return for the period 1 January 2017 to 31 December 2017 is 20 May 2018.
Reporting tax - payment deadline.

There is a quarterly tax advance payment obligation in Hungary. The deadline for this payment is the 12th of the month following the relevant quarter e.g. 12 of April, July, October and January.

This is also applicable for lump sum taxation payments, which will be explained below.

Hungarian Tax Authority contact details.

The contact details of the Hungarian tax authority are outlined below:

- http://nav.gov.hu/nav/kapcsolat
- http://en.nav.gov.hu/contact/Tax_and_Customs_Directorates_of_the_NTCA

Hungarian income tax rates.

For private individuals there are two taxation options available when paying personal income tax on income from short-term rentals.

The first taxation option is lump sum taxation. In order to choose lump sum taxation, you must register yourself using the form 18T101 in the first year and include this on your annual return thereafter. If you do not register for lump sum taxation you cannot avail of this option.

Lump sum taxation can only be chosen for a maximum of three properties owned by the landlord. The lump sum tax is due annually and amounts to HUF 38 400 (or €120) per bedroom and living room. If the activity is started or ended during the year, you only pay the relevant portion of the tax attributable to this period. Under this option no costs can be deducted from the rental income and no further taxes need to be paid to the Hungarian tax authority. Local taxes, specific to your area, may still apply under this option.

If you do not choose lump sum taxation, the income derived from short-term letting is regarded as income from an independent activity. The tax rates for 2018 on such income are, 15% personal income tax and 19.5% healthcare tax. The healthcare tax is only due if the letting is short-term, that is, if it is provided to a lesser for less than 90 days. For example, if your property is let for a full year to a number of different lessors, with each letting only lasting for a period of 30 days, then all of this income would be subject to the healthcare tax as each letting is for less than 90 days.

If you have any doubt regarding the correct tax treatment of your income, you should consider seeking advice from a tax professional.

Typical expenses that can be deducted from an individual's income in relation to short term lettings.

As noted above, there is no deduction for costs against rental income if you are availing of the lump sum taxation option.

In the case of regular taxation there are two options for deduction of expenses. You can deduct 10% of the gross income as a cost, or you can deduct the actual costs paid from the rental income.

Under the costs paid option the following costs can be deducted from your rental income:

- The online website fee,
• Utilities,
• Depreciation,
• Other taxes including the healthcare tax paid after the income realized in the last quarter e.g. healthcare tax paid in 2017 can be deducted from rental income in 2018.

The deduction of mortgage payments and insurance is not allowed.

Special reliefs from income tax in Hungary that an individual providing short term lettings may be able to avail of.

Family tax allowance can lower your tax base, provided you are not availing of the lump sum taxation option. The family tax allowance is HUF 66,700 per month per child for families with one child, HUF 116,670 per month per child for families with two children and HUF 220,000 per month per child for larger families.

Non-resident individuals are unlikely to be entitled to family tax allowance.

Deductions available for tax depreciation (e.g. capital allowances / wear and tear).

Depreciation is only available as a deduction if you purchased the flat. You cannot claim depreciation as a deduction if the property was gifted to you or if you inherited it.

For most flats, depreciation is 2% of the purchase price per year. For fixtures and fittings under HUF 100,000 (EUR 310) the depreciation is 100%, under HUF 200,000 depreciation is 50% and 14.5% per year for most other fixtures.

Hungarian income tax obligation for non-resident individuals.

If you are non-resident your income should be taxable in Hungary based on the double tax treaties of Hungary as the income received from short-term letting should be regarded as income from immovable property.

As a non-resident you have the same tax obligations as residents, thus you are entitled to opt for lump sum taxation. Otherwise their tax burden is 15%, just as it is for residents.

However, if you are subject to the social security system of an EU country or of a state with which Hungary has a social security agreement in place (such as the US, Russia, Serbia, Turkey, Japan and Korea), you are not subject to the healthcare tax payment obligation.

If you are non-resident you are not entitled to the family tax allowance unless at least 75% of your income is taxable in Hungary and additionally if you are not entitled to such a tax allowance in your country of residence.

If you are non-resident you will need a tax identification number (adóazonosító jel) in order to fulfill these tax obligations. You can apply for such a number by submitting form 18T34 (in the year 2018).

Hungarian income tax obligations for a Hungarian individual in receipt of foreign rental income.

If the foreign rental income is earned in a country with which Hungary has a double taxation agreement (DTA), then there is no obligation to pay tax in Hungary on this income. However, the income must be reported on your Hungarian tax return.
Hungary has a DTA with all EU and OECD countries.

**General property taxes payable.**

Property tax is levied by local municipalities. The tax is different for all municipalities; however, it cannot be higher than HUF 1 846.6 (EUR 6) per square meter or 3.6% of the corrected value of the property. The corrected value of the property is 50% of the actual value, so the tax cannot be higher than 1.8% of the value of the property.

Some municipalities do not levy this tax, and in most cases, it is lower than the maximum described above.

**Specific property taxes payable on properties that are let for short-terms.**

While there are no specific property taxes for short-term lettings in Hungary, it is quite common for municipalities to only levy property tax on flats that are not owner occupied.

**Capital taxes in Hungary.**

The disposal of Hungarian immovable property is taxable only if the property was bought in the last 5 years. For example, immovable property sold in 2018 is not taxable if it was bought in 2013 or earlier.

The tax rate is 15% of the profit, but this can be lowered the longer the individual holds the flat. This tax needs to be paid and declared by the 20 of May in the year following the tax year.

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**Sample Tax Computation**

Laura owns a 2 bedroom flat in Budapest. She rents out the spare room at the weekends.

Laura received total gross rent in 2018 of HUF 120 000.

Laura incurred the following expenses in relation to this house in 2018: local property tax HUF 3 500, online commission payments HUF 24 000 and electricity/gas HUF 16 000.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (HUF)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross rental income</td>
<td>120 000</td>
</tr>
<tr>
<td><strong>Less allowable expenses:</strong></td>
<td></td>
</tr>
<tr>
<td>Local property tax</td>
<td>3 500</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity/gas</td>
<td>16 000</td>
</tr>
<tr>
<td>online commission</td>
<td>24 000</td>
</tr>
<tr>
<td>Net taxable rental income</td>
<td>76 500</td>
</tr>
<tr>
<td>Personal tax due</td>
<td>11 475</td>
</tr>
<tr>
<td>Healthcare tax due</td>
<td>14 918</td>
</tr>
<tr>
<td><strong>Total tax due</strong></td>
<td><strong>26 393</strong></td>
</tr>
</tbody>
</table>

*As noted above, house insurance and mortgage interest are not allowable deductions.

**If Laura paid healthcare tax after her income in 2018 this can also be used as a deduction against her rental income for 2018.

***Laura can also avail of the lump sum taxation options as outlined above.
VALUE ADDED TAX

Value added taxes can be complicated, and you should take time to understand the rules as they apply to you and your particular situation.

Broadly speaking, Value-Added Tax (VAT) in Hungary is a tax on consumption. Most goods and services supplied in Hungary are subject to VAT.

A person who supplies goods and/or services in Hungary may have to charge VAT and pay this to the Hungarian tax authority. As with all taxes, we encourage you to consult with a tax advisor regarding your potential VAT obligations in Hungary.

If you are currently renting a room to guests, you may be required to apply VAT to your rental charge and to pay this VAT amount to the Hungarian tax authorities. As Airbnb is not supplying the rental, it is the responsibility of the host to consider local VAT obligations of the rental charge.

Do I need to collect any VAT from guests if I am letting short-term accommodation in Hungary?

In general, individuals who make taxable supplies in Hungary need to register for VAT and charge VAT on their supplies. There is currently no registration threshold for VAT registration in Hungary. As such, once you begin supplying short term accommodation, you should register for VAT.

The supply of holiday accommodation that is located in Hungary is a taxable transaction regardless of whether you are resident in Hungary or not. Therefore, if you are an individual who is not resident in Hungary, but your accommodation is located in Hungary, then should also register for VAT.

VAT applies to me. How do I determine how much tax I need to collect from my guests?

VAT rates differ per country and change periodically. We recommend you to check on a regular basis with the local tax authority to get the most up to date VAT rates for the country where you are required to pay VAT.

For example, at the date of issuance of this document, the Hungarian VAT rate applicable to the supply of holiday accommodation is 18% in Hungary. The supply of holiday accommodation is the supply of accommodation to guests for tourist purposes.

However, there are other VAT rates currently in force in Hungary, so we recommend that you confirm with a local tax advisor the VAT rate applicable to your supplies.

For further guidance on registering for VAT, please see the Hungarian tax authorities’ website.

VAT applies to me. How do I collect VAT from guests?
If you determine that you need to charge VAT on the supplies that you make to guests, please keep in mind that you have to collect this VAT from your guests and report and remit this VAT to the Hungarian tax authorities.

VAT is paid through the submission of a periodic VAT return. You will be obliged to file VAT returns on a monthly or quarterly basis. The VAT return is required to be filed on the 20th of the month following the monthly VAT period or on the 20th of the month following the quarterly VAT period. The VAT payment is required to be made on the same day that the VAT return is required to be filed.

Some formalities, such as issuing a receipt or an invoice to your guests, may be required. Please find more information on this here.

For further guidance on filing returns, please see the Hungarian tax authorities’ website.

There may also be requirements around whether you use VAT-inclusive or VAT-exclusive pricing. We recommend that you check your obligations in terms of pricing and the applicable invoice requirements with a local tax advisor.