

Cafeteria 2019

HOW TO PLAN FOR 2019?

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As a result of the tax package adopted this summer, ***the group of allowances currently within the cafeteria scheme that are tax free or as allowances in kind and certain specific allowances with tax charges that are lower than those on salaries will be significantly smaller as of 1st January 2019.***

The majority of benefits in kind in 2018 are going to be levied as salaries. In the case of certain taxable benefits, the modification of how the taxable base is calculated or the cancellation of health contribution to be replaced with social contribution as taxation as well as its further reduction expected in the course of 2019 will result in taxation different from the current one.

While the number of allowances eligible for lower taxation will be lower, the taxation of certain specific allowances will be unchanged in the short run (40.71%) calculated with 19.5% for social contribution as taxation. The taxation on allowances in kind is expected to increase temporarily from 34.22% to 34.5% until the rate of social contribution as taxation is modified.

The reduction of the rate of social contribution as taxation to 17.5% will result in the reduction of the actual tax rate of certain specific allowances and allowances in kind. Taking net allowances as 100 units, the tax rate will be 38.5% on the former and 32.5% on the latter.

Regarding SZEP-cards, the amounts transferred on them will be exempt from financial transactional charges as of 2019.

So, in searching for more favourable modes taxation the following will have a major impact:

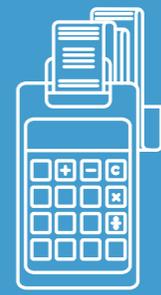
- How much do the modifications affect the current cafeteria scheme?
- Are the proper titles applied for the allowances?
- Will more complex forms of allowances be introduced beside cafeteria?
- Is the timing of the allowances best in the transitional period?

THREE MAIN ALLOWANCE PACKAGES OF THE CAFETERIA SCHEME

- tax free allowances,
- allowances in kind, and
- certain specific allowances.

HOW TO PLAN FOR 2019?

Cafeteria



The tax rate of the above groups of allowances **will not depend on the tax rates of the health contribution as of 1st January 2019**. Both benefits in kind and certain specific allowances will be taxed uniformly (at **19.5%** in accordance with the currently adopted social contribution taxation law). As a result, the gap between the tax rates of the two forms of allowances will be relatively narrower while – as the rate of social contribution as taxation is expected to be reduced – **the tax rate of benefits in kind will be lower than at present**.

The amount of benefits in kind and that of certain specific allowances will not have an impact on the social contribution taxes of natural persons on their separately taxed incomes (contribution limit up to 24 times the minimum wages), since those forms of allowances need not be included in that limit.

In every case, benefits in kind and certain specific allowances will mean lower expenditure for employers in 2019 as if the same net amount were granted to their employees in the form of salaries. The following table illustrates the changes of the tax rates and contributions of different allowances (taking 19.5% for social contribution as taxation) provided an employer intends to pay its employees 100 units:

Employer's expenditure	Cafeteria elements			Salary cost 2018/2019
	Tax free allowances	Benefits in kind	Certain specific allowances	
Net allowance	100	100	100	100
Tax charges	0	34.5	40.71	81.95
Total expenditure	100	134.5	140.71	181.95

HOW TO PLAN FOR 2019?

Cafeteria



TAX FREE ALLOWANCES

As the group of tax free allowances gets significantly smaller, the forms of allowances in kind, i.e. **things granted** for job related tasks but which **can partly be used for non-job related purposes** (company phone, company car, laptop, etc) will certainly play a more important part next year.

No income is generated in 2019 either with respect to **non-formal training** linked to the performance of activities.

No tax will be levied in 2019 either on the **non-job related use of passenger cars** provided by a paying agency legal entity incorporated abroad or by another organisation, or on the provision of related road passes or tickets.

In the same way, **the use of computers, and the provision of protective equipment and safety / protective devices** (such as safety goggles, protective drinks) or **workwear** will remain tax free.

Vaccination and occupational health treatment will also remain tax free in 2019.

Next year the following items will continue to fall within the tax free category: **non-redeemable admission tickets and passes to sports events, non-redeemable admission tickets and passes granting access to cultural services and library admission fees.** It, however, is an important change that in both allowance categories, tax exemption will apply only up to the value of the minimum wage, the part above this threshold will be taxed as if it was salary, i.e. in the same way as in the case of coupons for the allowances mentioned.

The provision of crèches and kindergartens will remain a tax free allowance next year as well. The related administration will also be simplified as invoices issued to natural persons

will also be eligible for tax free allowances.

Placement in **job related lodging or workers' hostels** continue to be tax free. In addition, the criteria of granting the allowances are changed favourably: as of 2019 – with respect to eligible employees – you will not have to investigate if a candidate lacks residence at the settlement where their workplace is, but whether or not they hold title / usufruct beyond 50 percent on a property not charged with usufruct rights at the settlement where their workplace is. As of 2019 placement in commercial accommodation will also become possible, however, placement in commercial accommodation will not qualify as placement in a workers' hostel.

The services provided in sports facilities maintained or used by the paying agency remain tax free in 2019.

Allowances related to business policy (price reductions, other discounts, etc.) will remain tax free next year as well.

It is not an explicit rule of exemption, but we want to call attention here – related to the “allowance of things” – that expenses to be accounted by employees as costs related to the procurement of material and immaterial instruments linked to **teleworking** are increased to HUF 200 thousand beginning from 2019.

The following will be taken off the range of cafeteria services in 2019: some highly popular tax free allowances such as **housing subsidies by employers, premium of risk insurance borne by another person up to 30 percent of the minimum wages, subsidies to start school**, and housing subsidies for mobility introduced recently as well as allowance to employees for the repayment of debts on student loans.

HOW TO PLAN FOR 2019?

Cafeteria



Regarding the verification of the settlement and utilisation of **housing subsidies by employers** provided this year, this year's rules will need to be applied, that is in this respect tax exemption will apply.

In 2019 on the paying agent's side no income from tax relief is generated related to employers' loans for housing either, provided the value of the loan granted during the four year period prior to the year of disbursement remained under HUF 10 million. It is important that in the course of applying the exemption criteria, it will no longer be necessary to comply with the legitimate housing need requirement. Obviously, next year it will not be possible to waive such type of loan tax free, as it will be taxed as if it was salary.

With respect to **premium of risk insurance** borne by another person, attention is called that – in accordance with the temporary regulation – the rules of exemption can still be applied to the premiums paid in insurance years starting in 2018 but until 31st December 2019 the latest. In case insurance premium or a part thereof is to be regarded as tax free income at the time of premium payment, the service provided/payment effected by the insurance company on the basis of an insured event that occurred during an insured period covered by such tax-free premium, in line with 2018 rules such service/payment will also be tax free.

The additional health insurance service granted as a targeted service will continue to remain tax free even as from 2019 but, at the same time, regarding the paying agent's side **the amount paid for the targeted service** will be taxed as a certain specific allowance.

From next year **additional mutual service provided by the mutual fund as a targeted service** will no longer be tax free: on the side of the private person this will be taxed as other income, whereas on the paying agent's side **the amount paid for the targeted mutual service** will not result in a personal income tax or social contribution levy.

In 2018 **a sponsor's donation granted to a voluntary mutual insurance fund** was not

regarded as an allowance. However, from 2019 onwards this will be taxed as salary, so whenever disbursement takes place, taxes and contributions levied on salary will need to be deducted. Please, also note that from next year **the fund member private person will also enjoy the right of disposition regarding the amount paid by another person (up to 20% of such amount, that however is capped at HUF 150 thousand).**

BENEFITS IN KIND (34,5 %)

As for benefits in kind, three sub-purses of the SZEP cards can be topped up next year as well to different limits:

- accommodation, (maximum HUF 225 thousand),
- board (maximum HUF 150 thousand),
- leisure activities (maximum HUF 75 thousand).

In total up to **HUF 450 thousand for recreation** (HUF 200 thousand for budgetary entities).

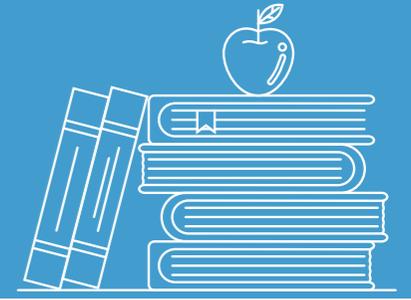
Using the current rate of social contribution as taxation to calculate, allowances in kind are taxed at the rate of 34.5% since the 1.18 multiplier need not be applied next year to identify the taxable base. Following the reduction of the rate of social contribution as taxation (17.5%) expected in July 2019, the tax rate is expected to remain at 32.5% for a longer period.

If SZEP card allowances exceed the recreational limit amount, the part above the limit will be taxed at 40.71% as certain specific allowance.

The **allowance of cash of HUF 100 thousand** is also cancelled from the list of allowances in kind.

HOW TO PLAN FOR 2019?

Cafeteria



CERTAIN SPECIFIC ALLOWANCES (40,71%)

The forms of allowance separately named in the Act listed below are continued to be taxed in 2019 as certain specific allowances:

- **meals or other services related to business trips;**
- **the use of telephones, mobiles or internet services** provided by the paying agent to perform job related tasks for non-job related purposes;
- regarding an insurance year starting in 2018 it will still be possible to use more favourable taxation rules applicable to personal insurances with taxable premiums (i.e. rules that are more favourable than in case of salaries). Please note that option will only be available until 31 December 2019.
- **the amounts paid for targeted services** subject to the provisions of the Act on voluntary mutual insurance funds (Ópt), **except for the amount paid for the additional mutual service;**

Regarding payments into targeted services, please note that in 2019 **the employer can continue to finance targeted services that can be provided by the health funds** as certain specific allowances. Supports made available under this title at more favourable taxes and public dues (than the ones applicable to salaries) include: support for purchasing medicines, healthcare services and also for health insurances financing such services. Effective from 2019 **contributions paid by employers into voluntary mutual insurance funds** will be withdrawn from the group of allowances taxed more preferably than salaries, as they then on will be taxed as salaries. Please, also note that from next year the fund member private person will also **enjoy the right of disposition** regarding the amount paid by another person, excluding the amount paid towards the targeted service (**up to 20% of such amount, that however is capped at HUF 150 thousand**).

- **the provision of entertainment and business gifts,**
- **low-value gifts** not exceeding 10 percent of the minimum wages to be granted once instead of three times a year,
- allowances due to **several natural persons** at the same time when the **paying agent cannot identify the income obtained by them separately,**
- **the costs of free or discount events** borne by the paying agent mostly for **entertainment purposes or leisure activities** organised for several people (including the costs of **gifts** to participants not exceeding 25 percent of the minimum wages),
- **benefits for advertising purposes** which cannot be deemed tax free business gifts provided they are not subject to the Law on the games of chance,
- taxable benefits provided in compliance with legal provisions.

As for allowances not separately named, the products/services granted free of charge or at a discount rate provided for **vocational high school students, college/university students in mandatory professional training and students participating in dual training holding a student's work contract** may be taxed as certain specific allowances.

Taxable insurance premiums subject to personal insurance contracts covered by the paying agent have been cancelled from the list of separately named allowances. In addition, the following allowances may not be granted at a discount rate: holiday services, workplace canteen meals, 'Erzsébet' meal coupons, to-school allowance, and employer's contribution to mutual insurance funds, contribution to the employer's pension institution, local travel passes or contribution to formal education.

HOW TO PLAN FOR 2019?

Cafeteria

In order to set up cafeteria schemes, the following table is a summary of the most typical forms of allowances available for employers from 2019, their value limits and tax rates:

BENEFITS		TAX FREE	BENEFITS IN KIND (TAX FREE: 34,5%)	CERTAIN SPECIFIC ALLOWANCES (TAX RATE: 40,71%)	OTHER INCOME (TAX RATE WITHOUT PAYING AGENT: 28,98%)	SALARIES (TAX RATE: 81,95%)
CRÈCHE AND KINDERGARTEN SERVICES		YES				
ADMISSION TICKETS, PASSES TO SPORTS EVENTS UP TO THE VALUE OF THE MINIMUM WAGE		YES				IN FORM OF COUPONS
ADMISSION TICKETS AND PASSES GRANTING ACCESS TO CULTURAL SERVICES AND LIBRARY ADMISSION FEES UP TO THE VALUE OF THE MINIMUM WAGE		YES				IN FORM OF COUPONS
SZÉP –CARDS, ACCOMMODATION			HUF 225,000/YEAR WITHIN THE ANNUAL RECREATIONAL LIMIT	UNIQUE AND ABOVE RECREATIONAL PART		
SZÉP –CARDS, BOARD			HUF 150,000/YEAR WITHIN THE ANNUAL RECREATIONAL LIMIT	UNIQUE AND ABOVE RECREATIONAL PART		
SZÉP –CARDS, LEISURE ACTIVITIES			HUF 75,000/YEAR WITHIN THE ANNUAL RECREATIONAL LIMIT	UNIQUE AND ABOVE RECREATIONAL PART		
AMOUNTS PAID INTO VOLUNTARY INSURANCE FUNDS FOR TARGETED SERVICES	AMOUNTS PAID TOWARDS A MUTUAL SERVICE	YES				
	AMOUNT PAID TOWARDS A HEALTH FUND SERVICE			YES		
	AMOUNT PAID TOWARDS A PENSION FUND SERVICE			YES		
TARGETED SERVICE PROVIDED BY A VOLUNTARY MUTUAL INSURANCE FUND	MUTUAL SERVICE				YES	
	HEALTH FUND SERVICE	YES				
	PENSION FUND SERVICE	YES				

HOW TO PLAN FOR 2019?

Cafeteria

BENEFITS	TAX FREE	BENEFITS IN KIND (TAX FREE: 34,5%)	CERTAIN SPECIFIC ALLOWANCES (TAX RATE: 40,71%)	OTHER INCOME (TAX RATE WITHOUT PAYING AGENT: 28,98%)	SALARIES (TAX RATE: 81,95%)
EMPLOYERS' CONTRIBUTION TO VOLUNTARY MUTUAL INSURANCE FUND					YES*
SPONSORS' DONATION TO VOLUNTARY MUTUAL INSURANCE FUND					YES*
WORKERS' HOSTEL	YES				
HOUSING PURPOSE SUPPORT					YES
PREMIUM OF RISK INSURANCE BORNE BY ANOTHER PERSON					YES**
PREMIUMS OF TAXABLE PERSONAL INSURANCE			PREMIUM PAID IN THE INSURANCE YEAR OF 2018, BUT ONLY UNTIL 31 DECEMBER 2019		
EMPLOYER LOAN PROVIDED FOR HOUSING PURPOSES	TAX FREE FOR OVER A PERIOD OF 4 YEARS AND UP A MAXIMUM OF HUF 10 MILLION (BEYOND THIS AMOUNT DERIVING FROM INTEREST DISCOUNT ARISES ON THE SIDE OF THE PAYING AGENT)				
LOW-VALUE GIFTS ONCE A YEAR			UP TO 10% OF MINIMUM WAGES		
ALLOWANCES DUE TO SEVERAL NATURAL PERSONS AT THE SAME TIME WHEN THE PAYING AGENT CANNOT IDENTIFY THE INCOME OBTAINED BY THEM SEPARATELY			YES (IT ALSO INCLUDES THE NON-SEPARABLE FEE FOR STOCK INSURANCES)		
THE COSTS OF FREE OR DISCOUNT EVENTS BORNE BY THE PAYING AGENT MOSTLY FOR ENTERTAINMENT PURPOSES OR LEISURE ACTIVITIES ORGANISED FOR SEVERAL NATURAL PERSONS (INCLUDING THE COSTS OF GIFTS TO PARTICIPANTS NOT EXCEEDING 25 PERCENT OF THE MINIMUM WAGES),			UP TO 25% OF MINIMUM		

*PRIVATE PERSONS HAS A RIGHT OF DISPOSITION UP TO 20% CAPPED AT HUF 150 000

**EXCEPT FOR PREMIUMS PAID IN ACCORDANCE WITH 2018 RULES WITH RESPECT TO THE INSURANCE YEAR OF 2018, BUT ONLY UNTIL 31 DECEMBER 2019, IN LINE WITH THE TRANSITIONAL PROVISIONS



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He has more than fifteen years of experience in tax audits and in Hungarian and international tax advisory services, including, among others, the drafting of tax advisory letters and positions as well as tax planning for Hungarian and international companies and groups.

He is the head of the entire tax practice of RSM Hungary PLC. He participates in the preparation and professional revision of due diligence reports, tax advisory letters and transfer pricing documentations.

He regularly appears in the press to talk about professional tax issues. He is also an opinion-leader in our international network, he is a founding member of RSM's International Tax Club.

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In addition to medium-sized Hungarian enterprises, foreign-owned multinational companies also represent a significant part of our client portfolio.

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