KPMG

Spotlight on Hungary

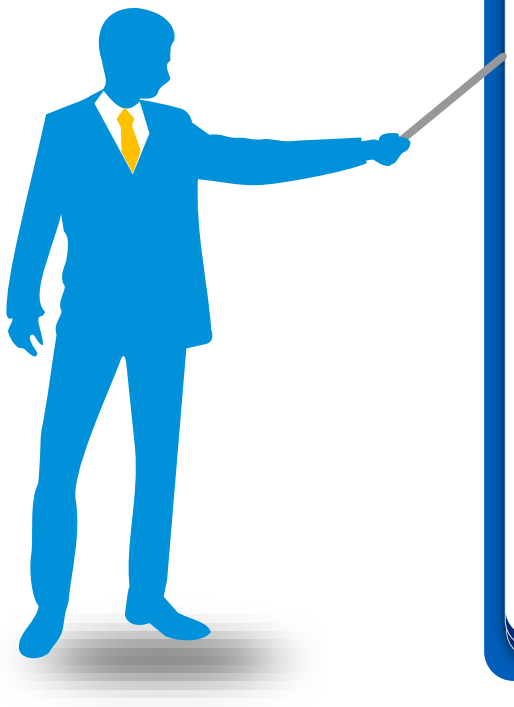
Balázs Pethő

KPMG in Hungary

—

24 June 2016

Agenda



1. Overview
2. Location of risk rules
3. Scope and insurances taxed
4. Exemptions and preferential tax rates
5. Tax base and special issues

Overview

- Insurance premium tax (IPT) has been introduced in Hungary in two phases:
  - At first called as accident tax (1 January 2012)
  - At second on insurance services effective as of 1 January 2013
    - Without having any similar tax ever
- Fire Brigade Charge and the Surtax on Insurance Companies were abolished from 1 January 2013

Location of risk rules

- The State in which the **real estate property** is situated if the insurance relates to buildings and their contents, in so far as the contents are covered by the same insurance policy
- The State where the vehicle is registered for risks covering any type of **vehicle**
- The State where the policyholder took out the policy in the case of policies of a duration of four months or less covering **travel or holiday risks**, whatever the class concerned
- The State where the policyholder has his normal place of residence or, if the policyholder is a legal person, the Member State where the latter's establishment, to which the contract relates, is situated, in all cases not explicitly covered by the points above

Scope and insurances taxed

Who is subject to IPT in Hungary?

- Insurance companies having a seat in Hungary
- Foreign insurance companies having a branch in Hungary
- Foreign insurance companies providing cross-border services
- Where (in every case) the risk is situated in Hungary

Which insurance types are taxed?

- Collision, theft, other damage insurance – Kasko (tax rate of 15%)
- Accident insurance (tax rate of 10%)
- Property insurances (tax rate of 10%)
  - Includes a very wide range of insurances: property insurance, credit insurance, liability insurance etc.
- Motor third-party liability (accident tax, at the rate of 30%, capped at € 0.25/day)

Exemptions and preferential tax rates

— **Which insurance is exempted?**

- Life insurance and health insurance
- Insurance policies taken into reinsurance
- Agricultural insurance (crop and livestock)

— **Preferential tax rates**

Below reduced rates are applicable provided the written premium for the previous financial year was below HUF 8 billion

— Only 25% of the tax is payable on the part of the gross written premium below HUF 100 million in any month (2.5%/3.75%)

— 50% of the tax is payable on the amount of the gross written premium between HUF 100 and 700 million in the respective month (5%/7.5%)

— Above the threshold 100% of the tax is payable

Tax base and special issues

- Written premium should be included at the date, when the premium is accounted for
- The whole amount should be added (including commissions paid)
- If insurance policy covers more types of risks (e.g. property/accident/life), the premium should be divided

Special issues

- ‘Collision, theft and other damage’ insurance not even defined
- Insurance companies/branches are liable to pay the tax (IPT), while in case of accident tax insurers are only obliged to withhold the tax (if provided by a foreign insurer via cross-border service, the policy holder is liable to pay taxes)
- No regulation or restriction in terms of charging the tax to policy holders
- Currently in Hungary it is quite difficult in practice to increase the premium of the already existing insurance policies with the amount of the tax based on the agreed contractual terms

Thank you

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