NEW RETAIL TAX ACT & THE AMENDMENT OF THE CIT ACT

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On 28 April, the Government submitted two significant bills to Parliament. One of the proposed acts includes the final rules applicable to the retail tax introduced earlier as a temporary tax, while the other bill concerns the amendment of the Corporate Income Tax (CIT) Act related to the development reserve.

- The proposed retail tax act was submitted in an almost unchanged form in comparison with the government decree promulgated before (see **our earlier newsletter**). The difference is still significant, since the decree would have applied only for the duration of the state of alarm; however, the intention of the Government is clear now, namely that the retail tax would remain in effect also after the end of the pandemic situation. According to the reasons attached to the bill, the retail tax would be a progressive tax, which only tax subjects with a significant level of resilience would have to pay, thereby ensuring their proportionate contribution to the bearing of public burdens.

- The Government also made a proposal for a new measure of economic stimulation within the framework of the CIT Act. According to the bill, the amount of the development reserve could be written off up to the full amount of the pre-tax profit, still subject to the upper limit of HUF 10 billion. According to the current rules, the development reserve could only be used for up to half of the pre-tax profit. Under the proposed new rules, however, it would be possible to use even the entire amount of the profit to be used for investments, as the Ministry of Finance put it, “free from corporate income tax”. This is an exaggeration, of course, since in case of the development reserve, we are actually dealing with depreciation write-off that has been brought forward in time. It means that even though the corporate income tax does not have to be paid now, but the investment must be realized within 4 years, and the depreciation on of the investment will not reduce the tax base at that time. In other words, this is rather a “postponement” of the tax.

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