

Effects of the Personal Income Tax Changes from the Point of View of Individuals

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Abstract–Do you want to pay tax fees because of tax returns? Certainly there is only one preferable answer for this question from everybody which is „Of course not!” but unfortunately it’s required. Let’s see what’s going on! Nobody likes the tax that is paid after the income which was earned in the previous year among people who do money earning activities. This tax is nothing more than the income tax. The income tax law is modified in every year. Most of the major changes have been in recent years which are worth exploring. Certainly we could get some surprising data as a result while we are observing consecutive years. It’s definitely worth reviewing the alteration of the individuals’ – who have different financial situations – net income including their tax benefits. The income tax belongs to one of the most important state revenue. As a major source of revenue, it significantly influences the alteration of state budget.

I. INTRODUCTION – THE INCOME TAX

The goal of personal income tax is that individuals are forced to contribute to the public burdens and provide the tax revenues for state and local government budget.

Features of the personal income tax:

- It has a personal nature;
- All of the individual’s income is taxable;
- General tax;
- Direct tax;
- Tax exemption is available;
- Tax benefit can be granted only if the contract achieves the rule’s goal;
- It’s accounted in calendar years;
- Tax advances must be paid during the year;
- Tax assessment is made by self-assessment;
- It’s based on the principle of fairness and equity;
- Don’t be performance retention.

Tax return is required at all for:

- Employee who has income in the tax year;
- Self-employed people;

- Drop rate taxpayer;
- Those who pay back housing and insurance discount;
- Those who have outstanding investment tax credit and are bounded to repayment [2].

II. CHANGES OF TAX LAW (2010-2011)

A. The Tax Rate

TABLE I.
THE TAX RATE IN 2010

2010	
up to 5.000.000 HUF	17%
from 5.000.001 HUF	850.000 HUF + (Income-850.000 HUF) x 0,32
The consolidated tax base is the income’s increased amount with the tax base supplement (27 percent).	

TABLE II.
THE TAX RATE IN 2011

2011	
16%	
The consolidated tax base is the income’s increased amount with the tax base supplement (27 percent).	

It’s Uniformly 16%. It’s equivalent to 20,32% with respect to the income before the up-grossing.

It must be applied to the consolidated tax base and all separately taxed income (movable and immovable cessions, fringe benefits, capital gains, interest rate reductions, profit).

TABLE III.
SELF-EMPLOYED PEOPLE'S TAX RATE IN THE FIRST HALF OF 2010

With respect to the tax base in the first half of 2010, the tax is		
1 st possibility		2 nd possibility
up to 50.000.000 HUF	10%	19% for the entire tax base
from 50.000.001 HUF	5.000.000 HUF + (Income - 50.000.000 HUF) x 0,19	
Prerequisites of using the preferential tax rate (10%):		
<ul style="list-style-type: none"> - Self-employed people who don't validate entrepreneurial tax discounts - The average number of their employees is at least a half person in the first half of the year or one person in the entire tax year. - Their shared tax base and the tax base for 2009 reached the minimum income level. - They met the requirements of organized labour relations. - Their contributions for the first half of the year >= Number of Employees x (Minimum Wage x 2). - They have to record the tax savings and they can only use them for prescribed goals. 		

TABLE IV.
SELF-EMPLOYED PEOPLE'S TAX RATE IN THE SECOND HALF OF 2010

With respect to the tax base in the second half of 2010, the tax is	
up to 250.000.000 HUF	10%
from 250.000.001 HUF	25.000.000 HUF + (Income - 250.000.000 HUF) x 0,19
There are no prerequisites of using the preferential tax rate (10%)	

TABLE V.
SELF-EMPLOYED PEOPLE'S TAX RATE IN 2011 AND 2012

From January 1, 2011 (year 2012 is also affected) the tax rate is	
up to 500.000.000 HUF	10%
from 500.000.001 HUF	50.000.000 HUF + (Income - 500.000.000 HUF) x 0,19
There are no prerequisites of using the preferential tax rate (10%)	

Self-employed people's PIT is an exception. If the annual tax base is less than 500 million HUF then the tax rate is 10%, if the annual tax base is more than 500 million HUF the tax rate is 19%.

Entrepreneurial withdrawals that are accounted as costs are 16% and the entrepreneurial dividend base is 16%.

Another exception is the tax after the yield of income from a long-term investment. It's 10 % after a 3 years deposit and it's tax-free after a 5 years deposit [1], [3], [5].

B. Contributions

TABLE VI.
INSURED PEOPLE'S CONTRIBUTIONS IN 2010 (1)

Distribution of payable contributions that are paid by insured people (from January 1, 2010 to October 31, 2010)					
Pension contribution		Private pension fund (PPF) membership fee	Health insurance and labour market contribution		
Not a member of a PPF	Member of a PPF		Health insurance contribution in kind	Health insurance contribution in cash	Labour market contribution
9,5%	1,5%	8%	4%	2%	1,5%

TABLE VII.
INSURED PEOPLE'S CONTRIBUTIONS IN 2010 (2)

Distribution of payable contributions that are paid by insured people (from November 1, 2010 to December 31, 2010)					
Pension contribution		Private pension fund (PPF) membership fee	Health insurance and labour market contribution		
Not a member of a PPF	Member of a PPF		Health insurance contribution in kind	Health insurance contribution in cash	Labour market contribution
9,5%	9,5%	0%	4%	2%	1,5%

There weren't so many changes between the first and the second half of 2010 in connection with contributions. The private pension fund's 8% was reclassified to the percentage of member of PPF within the pension contribution. In this way, the percentage of member of PPF was changed from 1,5% to 9,5% and the percentage of PPF membership fee was changed from 8% to 0%.

We couldn't say the same thing in case of the year 2011 because there wasn't any regrouping but the percentage of pension contribution was increased by 0,5% in both cases (ignoring the private pension fund membership) [1], [3], [5].

TABLE VIII.
INSURED PEOPLE'S CONTRIBUTIONS IN 2011

Distribution of payable contributions that are paid by insured people (from January 1, 2011 to December 31, 2011)					
Pension contribution		Private pension fund (PPF) membership fee	Health insurance and labour market contribution		
Not a member of a PPF	Member of a PPF		Health insurance contribution in kind	Health insurance contribution in cash	Labour market contribution
10%	10%	0%	4%	2%	1,5%

C. Income, Proceeds, Cost

Non-recognized costs are wages paid in excess of twice of the minimum wage's daily amount that is paid for the employee who is applied under simplified employment.

The amount that the private pension fund doesn't pay as pension service isn't taken into account for income calculation.

Not changed:

Any cost is taken into account once up to the revenue (except self-employed people and small agricultural producers). Costs of devices and services that are required for work activities and located in outside the individual's home are eligible [1], [3], [5].

D. Consolidated Tax Base, Tax Base Supplement

Former allowances that don't carrying tax burdens (e.g. pension, child care benefit) aren't taken into account when determining the consolidated tax base.

Not changed:

Tax base is defined with „grossing” from certain income that is belongs to the consolidated tax base (Income x 1,27).

78% of the proceeds are taken into account as income if the individual is bound to pay social security contributions or health care contribution (proceeds are from abroad or proceeds aren't from a payer) after the income. There is an exception when the contributory accounts these burdens as costs.

These are fallen under tax liability:

1. Income that is from self-employment.
2. Income that isn't from self-employment.
3. Other income.
4. Income of self-employed people and small agricultural producers by flat tax.

Tax base: (1+2+3+4) x1,27.

Income from abroad isn't part of the tax base if it isn't taxable in other states [1], [3], [5].

E. Total Annual Income

Income that is come from in connection with property rights (establishment, transfer, abolition, permanent waiver), amount that paid under court order, interim dividend (it's counted in the year when it becomes dividend) don't have to be counted in the total income [1], [3], [5].

F. Changes of the Family Discount

TABLE IX.
ANNUAL AMOUNT OF THE FAMILY DISCOUNT IN 2010

Ben. deps.	Income Threshold (HUF)	100% Annual Discount (HUF)
3	7.620.000	4000 x 3 x 12 = 144.000
4	7.620.000 + 635.000 = 8.255.000	4000 x 4 x 12 = 192.000
5	8.255.000 + 635.000 = 8.890.000	4000 x 5 x 12 = 240.000
6	8.890.000 + 635.000 = 9.525.000	4000 x 6 x 12 = 288.000
7	9.525.000 + 635.000 = 10.160.000	4000 x 7 x 12 = 336.000
Above 7	10.160.000	4000 x Ben. dependents x 12

Monthly amount of the family discount in 2011:

- In case of 1-2 beneficiary dependents: 62.500 HUF x Beneficiary dependents
- In case of 3 or more beneficiary dependents: 206.250 HUF x Beneficiary dependents [1], [3], [5].

III. CHANGES OF TAX LAW (2011-2012)

A. The Tax Rate

TABLE X.
THE TAX RATE IN 2012

2012
16%
The consolidated tax base is the income's increased amount with the tax base supplement.
Amount of tax base supplement:
- Isn't calculated for the income under 2.424.000 HUF that belongs to the consolidated tax base,
- Is calculated with 27 percent for the exceeding part of the income (above 2.424.000 HUF) that belongs to the consolidated tax base.

It's still uniformly 16%, only the tax base supplement is changed. As a result of this, supplement isn't concerned to everyone, only those who have an income that is above 2.424.000 HUF [4], [5].

B. Contributions

TABLE XI.
INSURED PEOPLE'S CONTRIBUTIONS IN 2012 [4], [5].

Distribution of payable contributions that are paid by insured people (from January 1, 2012)					
Pension contribution		Private pension fund (PPF) membership fee	Health insurance and labour market contribution		
Not a member of a PPF	Member of a PPF		Health insurance contribution in kind	Health insurance contribution in cash	Labour market contribution
10%	10%	0%	4%	3%	1,5%

C. Tax Credit

Tax credit is no longer available to anyone from January 1, 2012. As a tax-reducing item, tax base supplement is terminated but the elimination of tax credit means tax rising. But there is a problem, because wealthier people tax fewer than is was earlier (tax base supplement has not such a high rate and tax credit wasn't a big amount for them, but it was for people who are living from the minimal wage) [4], [5].

IV. NUMERICAL EVALUATION OF THE CHANGES (2010-2011-2012)

A. Changes of Minimal Wages

TABLE XII.
AMOUNT OF GUARANTEED MINIMAL WAGES FROM 2011 TO 2012

Guaranteed minimal wages		
From	To	Amount
January 1, 2011	December 31, 2011	94.000 HUF
January 1, 2012		108.000 HUF

Guaranteed minimal wage is for employees who are employed in a full-time job in a position which requires at least a secondary education level or some kind of secondary qualification.

TABLE XIII.
AMOUNT OF MINIMAL WAGES FROM 2010 TO 2012

Minimal wages		
From	To	Amount
January 1, 2010	December 31, 2010	73.500 HUF
January 1, 2011	December 31, 2011	78.000 HUF
January 1, 2012		93.000 HUF

It is worth to see the changes of the minimal wages. To help people who are living from the minimal wage the state increased it with 15.000 HUF from January 1, 2011 to January 1, 2012. On the contrary the state eliminated the tax credit which was essential for them.

You could rightly say that "OK, but they aren't covered by the tax base supplement". Well, is this enough for the living in a month or do they get even less salary? Let's see [5].

B. Characteristics of Individuals, Related Benefits

TABLE XIV.
CREATED BENEFIT GROUPS THAT ARE RELATED TO INDIVIDUALS

Description	1st B.G.	2nd B.G.	3rd B.G.	4th B.G.
Retired	No	No	Yes	No
Number of dependents	1	1	2	3
Number of beneficiary dependents	0	1	2	2
Member of a voluntary mutual insurance fund	No	No	Yes	Yes
Will go on pension before January 1, 2020	-	-	No	Yes
Has benefit that is related to pension fund members	-	-	No	Yes
Has dividend that is gained from inland	No	No	Yes	Yes

C. Evaluation

As for the years 2010 and 2011, it's worth a visit to see the two extremes for the first and fourth individuals and stress the main differences between them. In the first individual's case the personal income tax's rate is higher because there is no beneficiary dependent in the family. Although the calculated tax was counted with 17% in 2010, but the maximum monthly amount of tax credits are become lesser with 3.000 HUF in 2011. Accordingly for those who didn't have family allowance in 2010 and 2011 too, theirs net earnings have become significantly less for 2011 at all.

TABLE XV.
SUMMARY TABLE FOR INCOME'S TAX IN 2010/2011/2012

Evaluation	1. I	2. I	3. I	4. I
Annual gross earnings	1.150.000 HUF	2.000.000 HUF	2.700.000 HUF	4.500.000 HUF
Monthly gross earnings	95.835 HUF	166.665 HUF	225.000 HUF	375.000 HUF
Tax benefits	1. BG	2. BG	3. BG	4. BG
Annual personal income tax (2010)	67.085 HUF	250.600 HUF	430.650 HUF	1.048.080 HUF
Annual personal income tax (2011)	88.480 HUF	141.200 HUF	244.920 HUF	122.400 HUF
Annual personal income tax (2012)	184.000 HUF	200.000 HUF	203.920 HUF	17.680 HUF
Annual net earnings without dividend (2010)	887.415 HUF	1.409.400 HUF	1.904.850 HUF	2.686.920 HUF
Annual net earnings without dividend (2011)	860.270 HUF	1.508.800 HUF	2.077.080 HUF	3.590.100 HUF
Annual net earnings without dividend (2012)	753.250 HUF	1.430.000 HUF	2.118.080 HUF	3.649.820 HUF
Monthly net earnings without dividend (2010)	73.950 HUF	117.450 HUF	158.740 HUF	223.910 HUF
Monthly net earnings without dividend (2011)	71.690 HUF	125.735 HUF	173.090 HUF	299.175 HUF
Monthly net earnings without dividend (2012)	62.770 HUF	119.165 HUF	176.505 HUF	304.150 HUF

As for the years 2010 and 2011, in the fourth individual's case the paid tax have become significantly lower in 2011 than it was in 2010. This radical change was caused by the individual's high earnings because the individual ought to tax a lot like the previous year. The individual has got so many discounts for the 2 beneficiary dependents because of the current family allowance in 2011. In this way the individual could pay tax lesser with more than 900.000 HUF and net earnings have become more with the same percentage than they

were in 2010. It's clearly seen from the table that individuals are associated more positively in connection with their gross earnings from the year 2010 to 2011 who basically have high salary and at least there is one beneficiary dependent in the family so family allowance is paid for them.

As for the years 2011 and 2012, interestingly, the first individual's annual personal income tax is doubled despite the fact that individual is living in the edge. This because family discount isn't applied for that individual and lost more with the elimination of tax credit than winning with the terminated tax base supplement. In case of the others we could say that annual personal income tax shows a downward trend. What's more, we can see the greatest reduction in case of the 4th individual because of the family discount and the terminated tax base supplement which has such a weaker effect on the individual than it has about the 1st individual. The 4th individual has more salary with almost 1.000.000 HUF than two years ago.

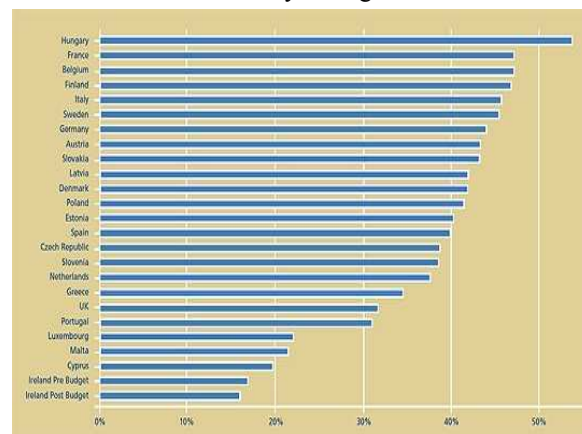


Figure 1. Costs after wages in Europe (2011) [6].

Unfortunately, annual net earnings show a decreasing trend in our country in the poorer people's case. The middle financial layer is about to disappear. As for the wealthier people, they pay less tax than earlier because of the related benefits and they can realise more salary.

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