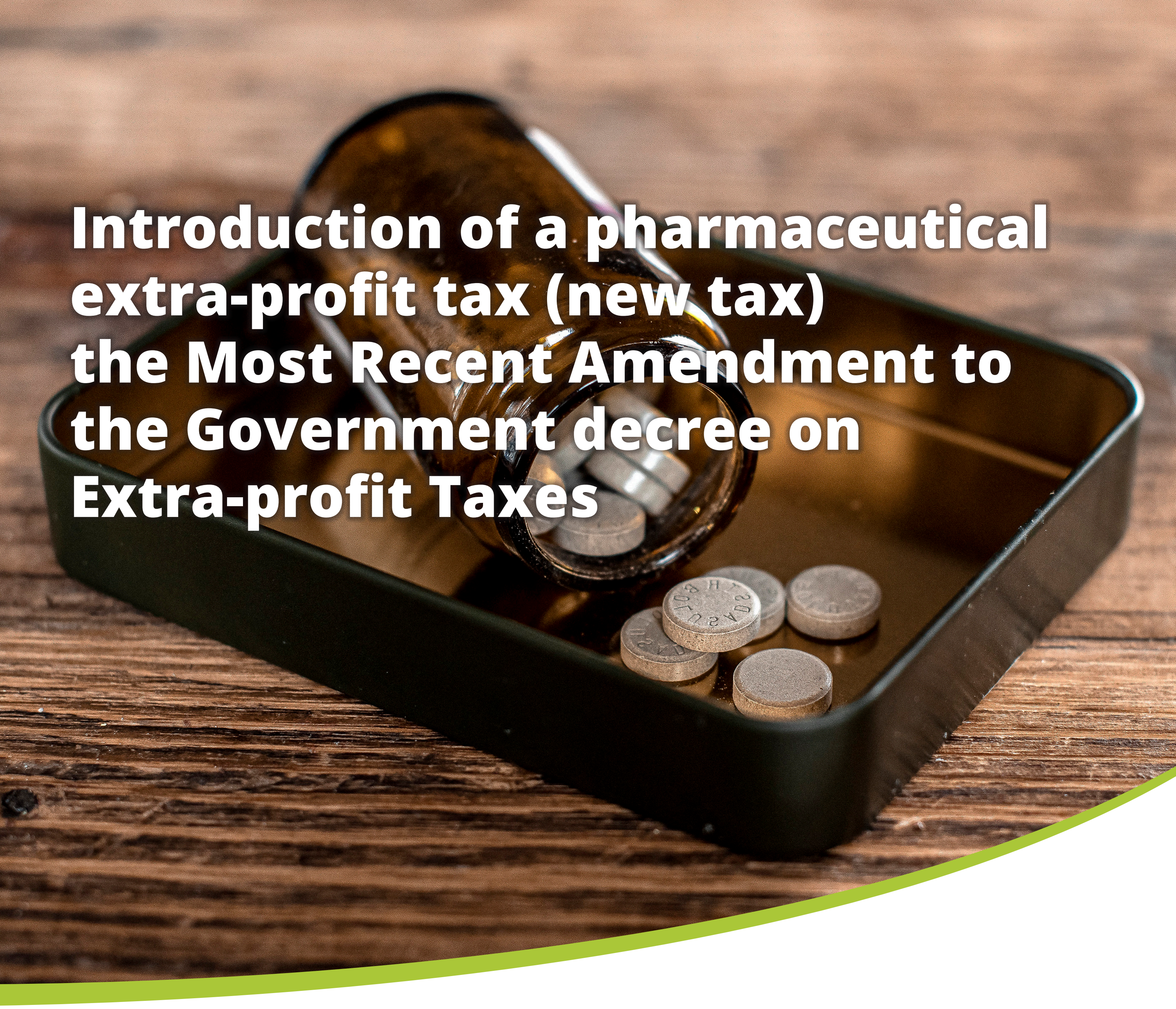

Introduction of a pharmaceutical extra-profit tax (new tax) the Most Recent Amendment to the Government decree on Extra-profit Taxes

Government Decree No. 7/2024 (I. 25.), amending Government Decree of 197/2022 (VI. 4.) on extra-profit taxes ("**Decree on Extra profit taxes**") was published in the Official Gazette No. 8 of 2024 on 25 January 2024.

The amendment concerns Article 4/A of Decree on Extra-profit taxes, which introduces **a new tax, the extra-profit tax on pharmaceutical manufacturers for the tax year 2024, with retroactive effect from 1 January 2024**, in addition to the special tax previously levied on pharmaceutical manufacturers.

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The amendment does not change the definition of a pharmaceutical manufacturer, so that a manufacturer of activities under TEÁOR 2110 (Manufacture of basic pharmaceutical products) and TEÁOR 2120 (Manufacture of pharmaceutical preparations) will be subject to the new tax if its aggregate net turnover from activities under TEÁOR 2110 and TEÁOR 2120 exceeds 33.33% of its total net turnover, based on the latest annual accounts available on the first day of the tax year.

In **the tax year 2024, the tax base for the pharmaceutical extra profit tax will be the tax base under Act C of 1990 on Local Taxes** ("Act on Local Taxes"), and the rate will be

a) 0,5 % if the tax base does not exceed HUF 50 billion

b) 4 % if the tax base exceeds HUF 50 billion but does not exceed HUF 150 billion

c) 7 % if the tax base exceeds HUF 150 billion.

The **special tax on pharmaceutical manufacturers shall be determined on the basis of the net turnover for the tax year 2024**, determined on the basis of the annual accounts for the tax year in accordance with the Act on Local Taxes, and shall be set at the following rates from 1 January 2024

a) 0.5% if the tax base does not exceed HUF 50 billion

b) 1.5% if the tax base exceed HUF 50 billion but does not exceed HUF 150 billion

c) 4% for the part exceeding HUF 150 billion.

The two taxes are mutually deductible, i.e. the pharmaceutical manufacturer's special tax on pharmaceuticals for the tax year is reduced by the amount of the pharmaceutical manufacturer's extra profit tax on pharmaceuticals for the tax year, up to the amount of the special tax.

Although the actual legislative intent behind the amendment is not known yet, according to the Ministry of Finance's statement, the introduction of the new tax rate will essentially leave the tax burden on pharmaceutical manufacturers unchanged and can be seen as a beneficial amendment respects of their annual financial report figures.

This can be explained by the fact that the extra-profit tax for the pharmaceutical industry is based on the tax base from the production of pharmaceutical preparations and raw materials for medicinal products under the Act on Local Taxes, which can already be offset against the global minimum tax liability. The previous net revenue-based extra tax had to be recognised in the operating profit, whereas the new pharmaceutical extra profit tax (considered a corporate income tax type of burden) does not negatively affect the operating profit (EBITDA).

The pharmaceutical manufacturer's liability for the special pharmaceutical manufacturer's tax and extra profit tax for the tax year 2024 may also be reduced by the cost of the acquisition of the tangible asset pursuant to Article 4/A (10) of the Government Decree and the combined amount of the research and development pursuant to the Corporate and Dividend Tax Act, up to a maximum of 50 per cent of the amount of the tax.

For the tax year 2024, the pharmaceutical manufacturer is obliged to assess, declare and pay an advance payment of the pharmaceutical manufacturer's extra-profit tax and the pharmaceutical manufacturer's special tax. The advance payment to be made by the pharmaceutical manufacturer for the 2024 tax year is determined by the manufacturer by means of self-assessment on the basis of the expected extra-profit tax and special tax on pharmaceuticals to be paid for the 2024 tax year, which is to be declared and paid by 20 December 2024 on a special form provided by the National Tax and Customs Administration of Hungary.

The pharmaceutical manufacturer must assess and declare the extra-profit tax and the special tax on pharmaceuticals for the tax year 2024 on a separate form and pay the extra-profit tax not yet paid in advance by 20 May of the month following the tax year 2024 (i.e. by 20 May 2025).

The Government Decree lays down special rules for pharmaceutical manufacturers whose 2023. tax year has not yet ended when the substantive amendment entered into force.

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The purpose of this summary is to provide a brief, concise information on certain issues. The content of this summary is not exhaustive and does not constitute a legal advice.

Should you have any questions do not hesitate to rely on our services.

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